

In Search of Monetary Union

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Though History seldom repeats itself it does produce variations on continuous themes. The current enthusiasm for monetary union is not new. Such enthusiasm reached its peak in the 1860s with a general desire for international monetary action which varied "from the pronounced views of those who demanded absolute regulation of the monetary standard by international agreement to the milder but almost equally Utopian wishes of those who merely advocated a uniform international coinage."¹ Because of the difficulties in comparing items during the Great Exhibition in London in 1851 "Public attention was forcibly called to the subject of establishing a common system of coins, weights and measures".² The possibilities for establishing a common coin were explored at various congresses throughout the 1850s and 60s.

Of course, the monetary systems and therefore the detailed problems facing monetary union were different in the 1860s than they are in the 1990s. But the major themes — the problems of a parallel currency, the hiding of major conflicts under the carpet of transitional arrangements, the different effects of local and global economic changes resulting in the need for increasing detailed intervention in national economic decisions — these themes were as melodious then as they are today, though they required different instruments for their performance.

To understand and possibly learn from this historical episode some background of the monetary systems in the 1860s is necessary.

¹ WILLIS (1902), p. 56.

² *The Royal Commission on International Coinage*, 1868.

All the major countries during this period were on a metallic standard. Some were on a gold standard, some on a silver standard and France, the prime mover for monetary union and a universal currency, was on a bimetallic standard. It coined both silver and gold. As France's adherence to bimetallism, against all economic arguments, turned out to be the major barrier to a successful monetary union it is necessary to understand the problems with such a system.

A country on a bimetallic standard fixes the value of silver relative to gold by its decision on the gold and silver contents of its coinage. In France the ratio was fixed at 15.5 to 1. But as often happens the market can easily dispose what legislators propose. To maintain a fixed relative price of gold and silver *and* to maintain both as currency, the market has to cooperate. Any major change in the output of gold relative to silver, resulting in a change in their market relative price will have a disastrous effect on such a system. If new gold mines are discovered gold becomes relatively cheaper than silver. It now pays individuals to send gold to France, and to export silver from France, because in that market the relative price is fixed at 15.5 to 1. Similarly if silver becomes relatively more abundant than gold in the world the opposite would occur. Silver now being more expensive than gold in France there would be an inflow of silver and an outflow of gold. Any new gold coins minted would be melted down and sent abroad and soon only the silver coinage would remain in circulation. This problem occurred. During the 1850s and most of 1860s there was a major increase in the world output of gold from the newly discovered mines in California and Australia. Much of this gold flowed into France, and much silver flowed out of France. It was this event which in 1853 led America to *de facto* abolish its bimetallic standard by reducing the silver content of its coins. As we shall see the economic world has a habit of upsetting the predictions of both economists and politicians. Within twenty years the problem was reversed. The output of silver relative to gold started increasing. But that for later.

One other piece of factual information is required for an understanding of the issues.

The three great potential players during this period were France, England and America. The gold content of the French coins was such that a 25 franc piece, not in existence but easily creatable, would if created, contain 112.008 grains of gold. The English sovereign contained 113.001 grains of gold and the American half-eagle, equal to 5 dollars, contained 116.1 grains of gold. Many other European countries had some gold coin whose gold content was within a few percentage points of these. The reasons for these weird and wonderful numbers are too complicated to get into here. But their relationship is important and played a major role in the search for a universally acceptable currency unit.

1. Act 1: The Latin Monetary Union.

In 1865 at an historic meeting in Paris four countries — France, Belgium, Italy and Switzerland — signed a convention forming a monetary union. There is a logic in the choice of countries that is not immediately obvious to a modern reader. Belgium had a chequered monetary history. In 1832 Belgium had adopted the French monetary system and French coins became legal tender. Between 1832 and the convention of 1865 it had gone through a variety of monetary turmoils. At one time it had made the English sovereign legal tender, at one time it had Dutch money as part of its currency. In 1849, for example, the Belgian currency consisted of French francs, the English sovereign, Dutch 10 florin pieces, and even its own native Belgian pieces. In 1854 all local gold coins were demonetised and Belgium moved to a silver standard, but by 1861 legal tender was again restored to French gold coins.

In Switzerland until 1848 the various cantons issued their own money each differing from all others and each with only local legal tender status. In 1848 Switzerland centralized monetary issue and in 1850 adopted the French monetary system for silver coinage. It also made both French and Belgian silver coins legal tender. But what legislators make legal tender and what users consider acceptable

money are quite different matters. As the Swiss became accustomed to French coinage, and as gold was increasingly flowing into France because of the increasing world output of gold, French gold coins soon also began to circulate with disastrous effects on the silver coinage. The problems of bimetallism in a world of rapidly changing gold production was beyond the powers of legislators to control. Switzerland was soon inundated with gold. As often happens legislators legislate to enshrine a *fait accompli* in law. In 1859 The Swiss Bundersrath stated that "the gold standard has become a matter of fact, whereas the silver standard remains standing only on paper, and one can without exaggeration assume that nine tenths of all transactions...are performed by means of gold".³ In 1860 Switzerland facing the inevitable, and wanting to maintain some silver coinage in circulation reduced the silver contents of its coin so that they contained 10% less silver than the identical French and Belgian coins of the same denomination. Not surprisingly these soon flooded France and Belgium to displace the local coins which went to the melting pot.

In 1862, after unification, Italy too adopted the French monetary system, and Belgian and Swiss coins were granted legal tender status.

The four countries meeting in Paris in 1865 to form a monetary union all had similar moneys based on the French system. Moreover, their currency already freely circulated in all of them. It would seem therefore, that the purpose of the convention was merely to enshrine an existing system in law. But there were seemingly "minor" differences in the silver coinage which were causing some problems. As we shall see the seemingly minor differences combined with bimetallism would ultimately undermine the monetary union.

The differences in the silver content of the silver coinage of the various countries provided great scope for profits by exchanging those with a high content for those with a low. This was what happened when Switzerland reduced the silver content of its coinage. Moreover, the increasing world gold output was reducing the price of

³ WILLIS, p. 30.

gold relative to silver. Good silver coins with a sufficient silver content were melted and gold coinage began to dominate. One of the purposes of the convention of 1865 was to iron out these little problems. The great failure of the convention was to shove them under the carpet of transitional arrangements and attempt to resolve them by more detailed regulations on the coinage of each state. What started as a simple headache soon became a regular migraine requiring more and more interventionist medicine.

Given the events during the decade or so preceding the convention the question of continuing with bimetallism should have been the major topic at the convention. All the countries except France wanted to move to a gold standard, and most economic commentators in France felt the same way "The economic world was in accord in recognizing the impossibility of a double standard".⁴ But then as now economic arguments seldom dominate political considerations. France was wedded to a bimetallic standard. The only argument it provided was that a double standard had "rendered her great services and it would lend itself to the possibilities of the future and to the need of commerce".⁵ At the convention France argued that raising the question of the double standard would be disruptive to the achievement of a monetary union and should be left for some other time. Its policy was to get agreement on general principles and leave the fundamental problems for some other time. France prevailed. The final agreement not only retained the bimetallic standard but failed to unify the gold silver ratios in the member countries because of the special transitional arrangements introduced. The retention of bimetallism was soon to become the major obstacle to an international money.

The monetary union created by the convention was greeted with a mixture of disappointment and enthusiasm. In Briain, Bagehot in *The Economist* was enthusiastic about the idea but critical of the content:

⁴ the *Journal des Economistes*, quoted by WILLIS, p. 38.

⁵ WILLIS, p. 45.

“The treaty by which the four nations ... bind themselves to use exclusively an identical coinage is one of the most characteristic treatises of the nineteenth century. In mediaeval times, Governments rather liked their money to be different from other moneys. The right to coining money was an exclusive and half mystic prerogative, and it would have been thought a sacrifice of independence and a commencement of degradation to borrow the coinage of a foreign neighbour ... but in modern times we no longer regard the right to coin money as a half consecrated prerogative; it is simply a subordinate mode in which governments make themselves useful.”

What I wonder would Bagehot have thought of the current debates about monetary union?

Discussing the possibility of England joining the monetary union he continues

“it would be a matter of great regret that from our ingrained and insular habits we are unable to adopt it [the French system of coinage]. 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... If we joined, we could bring an influence on universal commerce far beyond that of any other state... all Englishman would lose some of the exceptional national feeling which retards their progress, which makes them look at others as strange, which makes them think us singular too. If civilization could make all men of one money, it would do much to make them think they were of one blood.”⁶

But there was a real barrier to entry because “the convention ... falls into the heresy of the double standard” and the problems this would involve were too great to overcome.

The *Edinburgh Review*⁷ was less fearful, or possibly less well versed in the problems of bimetallism and enthusiastically supported the joining of England on the basis of the 25 franc plan. As we saw the difference between the gold content of the English sovereign and a possible 25 franc gold coin was less than 1%. If the French agreed to coin a 25 franc piece and if the British government would be willing to reduce the gold content of the sovereign, these two coins would be

⁶ *The Economist*, (Sept. 15, 1866), p. 1077.

⁷ October, 1866, p. 283.

identical and could serve as the unifying money for all the countries in the union and Britain.

The Economist noting the enthusiastic support of the *Edinburgh Review* considered and explained the 25 franc system and enthusiastically supported it, *if* bimetallism could be dumped. With such a system “a bag of the new sovereigns, or ‘internationals’ as they should be called, would go everywhere”.⁸ Such a new sovereign would be accepted equally with a 25 franc piece.

The disappointing response to the convention, much of it based on France’s acceptance of bimetallism led to many attempts both inside and outside France to shift it to a gold standard and to abolish the bimetallism to which it clung so dearly. But to no avail. However, France still desired to spread its monetary system to other countries.

The opportunity came during the international exposition in Paris in 1867. The French government used this opportunity to gather the representatives of many countries for a conference on the monetary question. The purpose of this gathering was the “desire to see the union, as yet restricted to four countries, become the germ of a union more extended, and of the establishment of a general circulation among all civilized states.”⁹ So it came about that in June 1867 twenty nations met in Paris to pursue a dream — the establishment of a universal currency.

2. Act 2: A dream that failed

The representatives who met at the Paris conference were not dreamers. They were neither poets nor philosophers. They were men who could speak knowingly about the weights and finesses of coins and about the economic consequences of fixing mint ratios incorrectly. Though the economics of a universal currency and the economic problems of establishing such a currency were the main

⁸ October 27, 1866, p. 1252.

⁹ Letter by the French ambassador to America to the American Secretary of State.

topics of discussion over the eight days of the conference, it was not economics that fuelled the dream. Except for a few extremists economics is a poor hallucigen.

For the Emperor Napoleon, who enthusiastically supported the conference and was its official host, the memory of his namesake's comment from the rock of St. Helena that Europe needed "a common law, a common measure, and a common currency" played a part. After all, the common currency envisaged was the French system. De Parieu the French delegate to the conference and a long standing proponent of a universal currency probably did believe that "an age which ... honours and encourages the genius of peace, should ... require the peaceful discussion of the means of discharging, by the establishment of moneary unification, its debt to civilization".¹⁰ Mr. Ruggles the representative from the United States was also an enthusiastic supporter of a universal currency.

Britain had two delegates at the conference, the then Master of the Mint and a Treasury representative. But their enthusiasm was, to say the least, very muted. In the pre-conference activities the United States delegate noted that

"It will probably be regarded as a noticeable fact that while the British government has appointed an officer of its royal artillery... to exhibit... the weights, measures and coins of Great Britain, it has hitherto omitted in any other way to participate in any discussions on action of the international committee on the subject of a uniform coin".¹¹

At the meetings of the conference the British delegates went along with the procedures until day four when the conference was beginning to get down to specifics rather than general principles. At this point the British delegate, presumably to avoid any possibility of anyone considering that the British were in any possible agreement with any of the procedures, announced that

"So long as public opinion [in England] has not decided in favour of

Diplomatic correspondence, p. 372.

¹⁰ The proceedings of the conference, *ibid.*, p. 309.

¹¹ *Ibid.*, p. 302.

a change of the present system, which offers no serious inconvenience ... and until it shall be incontestably demonstrated that a new system offers advantages sufficiently commanding to justify the abandonment of that which is approved by experience and rooted in the habits of the people, the English government could not believe it to be its duty to take the initiative in assimilating its coinage with those of the countries of the continent.”¹²

This comment made it quite clear where Britain stood on the issue of a universal currency, at least one based on the franc and the decimal system, two quite alien foreign inventions.

There were two major issues that had to be resolved at the conference. The first, and in many ways the most important, was which standard should be chosen, gold, silver or bimetallism? The second problem was how to provide a coin that would be considered legal tender in all the countries, and perform the other functions of a universal currency, namely, be a useful unit of account? The great problem here was the British duo-decimal system of coinage.

The solution to the first problem was relatively easy to find. Mr. Ruggles the American delegate was quite adamant and passionate about this.

“The legislature... have sufficiently learned, if not by study, at least by experience, that the system of a double standard is not only a fallacy, but an impossibility, in assuming a fixed relation between the value of two different products, gold and silver. The value of each of these depends upon the quantity produced and this quantity is beyond the power of the legislation.”¹³

As many of the countries associated in the Latin monetary union had also gone through such an experience and could learn from it, it is not surprising that all the countries, except Holland, voted for a single gold standard. But, such decisions need political backing and France was politically wedded to a bimetallic system. So the issue was fudged in a time-honoured way. It was agreed that, though a gold standard would be the ultimate goal, there would be transitional arrangements, over an unspecified period, so that countries on a bimetallic and silver

¹² *Ibid.*, p. 326.

¹³ *Ibid.*, p. 316.

standards could adjust. As is often the case transitions of this sort guarantee that the goal is never attained.

At the final sitting of the conference on 6 July, 1867 the representatives, excluding of course the English, were extremely enthusiastic. They settled on a universal currency based on the 25 franc piece. All that was required was that America and England reduce the gold content of the half-eagle and the sovereign. Hopes were high. There was an immense amount of good will on the part of most of the delegates, and particularly from the big player, the United States, which seemed willing to undertake large recoinage costs to attain a universal currency. Ruggles the American representative was in glowing form. Reporting on the conference to the American Secretary of State he wrote:

“In the present effort of the assembled nations, ‘not for a day but all times’, the clear good sense... of the English people will not allow their government to lag or linger... The fire but recently kindled is rapidly diffusing its light through the world”.¹⁴

How dreams can fuel hope.

But there was a “minor” snag. The United States was vehemently against the bimetallic system. It had gone through such a system and had only a few years earlier changed the content of its silver coinage to avoid the inundation of silver coinage arising from the discrepancy between its mint ratio and the world price.

What was the outcome of all this enthusiasm? In England a Royal Commission was set up. Though quite sympathetic to a universal currency it recommended against the proposals of the Paris conference to base the universal currency on the franc and to change the gold content of the sovereign. The commission examined a few other ingenious proposals but considered them all too costly and quite correctly not serving the purpose of a universal currency.

Though the commission rejected the Paris plan it graciously recommended that a universal currency based on the British sovereign would be acceptable.

¹⁴ *Ibid.*, p. 349.

In the United States a proposal was made to Congress to adjust the gold content of the U.S dollar but nothing much came of it. The only result of the conference was the ceremonial minting by the French mint of a coin which had inscribed on its reverse "5 dollars, 25 francs, 1867".

The issue raised by the possibility of a monetary union with some continental countries was then, as it is now, of great political, economic and public interest. Who better than Walter Bagehot then a columnist on *The Economist* to take it up? He did so with a series of articles under the heading "International Coinage". These were later published in a pamphlet under a significantly different title "A Practical Plan for the assimilating of English and American money, as a step towards a Universal money".

3. Act 3: The Bagehot plan

Bagehot recognized, but possibly overestimated that something great was going on in the world of money:

"A remarkable movement is going on in the world towards a uniformity of coinage between different nations... France has now formed a coinage league, which Switzerland and Italy have already joined, which Austria has agreed to join, which the provisional government of Spain has proclaimed, and which the United States have been asked to join".¹⁵

Bagehot was strongly opposed to the suggestions of the international conference and in that respect agreed with the Royal Commission's view rejecting a monetary union based on the 25 franc coin. But he was also astute enough to realize that Britain would not be able to impose the British currency on the rest of the world. Moreover, he believed that

"If we do nothing, what then? Why, we shall, to use the vulgar expression, be 'left out in the cold'... If things remain as now, [Germany] is sure to choose the French currency...Before long all

¹⁵ BAGEHOT (1976, vol. 9) p. 64.

Europe, save England, will have one money, and England be left standing with another money.”¹⁶

Belatedly his prediction may yet be fulfilled.

He also recognized, what was slowly becoming clear and had been clear in the various pronouncements at the conference that the movement for a unified currency was not driven by just economic considerations.

“Every person must see that the growing demand for uniformity in currency is only one case of the growing demand for uniformity in matters between nations really similar. Many subjects, most subjects of legislation, vary between nation and nation; they depend on national association and peculiar idiosyncrasies... but commerce is everywhere identical; buying and selling, lending and borrowing, are alike all the world over, and all matters concerning them ought universally to be alike too... Ultimately the world will see one *code de commerce*, and one money as the symbol of it”.¹⁷

The world not yet, part of Europe maybe.

But Bagehot saw that the problem was not so much the coinage but the decimal system. It was not difficult to devise a single coin to be called the 25 franc piece in France, the sovereign in Britain, and the half-eagle in America. If the gold content of each of these coins were the same, each would be acceptable in all three countries. It would not even have been beyond the ingenuity of the various mints to produce a single coin with all three national symbols displayed on it. But, though this would provide a universal coin, it would not provide a universal currency. Converting, say, a price quote of 12 francs and 27 centimes into £.s.p. would not be very easy. The international language of money would not have been changed. But it was exactly such a change that was desired because “The diversity of monetary expression is an effectual bar to common commercial understanding”. To eliminate this bar “a common language of commerce — a single money of account” is required. And such a money would have to be based on the decimal system.

¹⁶ *Ibid.*, p. 65.

¹⁷ *Ibid.*, p. 65.

So the problem to be resolved was very clear: How to construct a parallel currency that was easily translatable into the British duo-decimal system of calculation while serving as an international unit of account in a decimal system? One may wonder why Bagehot did not advocate a move to a decimal system. About eight years earlier he had examined that question and concluded that such a move would be too disruptive because it would require a difficult re-education programme¹⁸. So he was looking for a transitional currency that could be easily learned and become generally acceptable. The parallel currency would ultimately become the dominant currency resulting in the withering away of the British monetary system. But

“In the present state of education of Englishmen, the transition state is most important. In better educated parts of the world — in Germany, for example — it is very likely that a sudden change in the modes of reckoning could be effected, but it is not so here.”¹⁹

The reference to Germany is to its proposal to change its currency to a decimal system.

Bagehot considers two proposals for a parallel currency, the eight shilling plan and the farthing plan.

(a) The eight shilling plan

This plan was developed by Graham the Master of the Mint who had been one of the British delegates at the Paris conference. Eight shilling is 96 pence, 96 is very close to 100 and 100 is after all a perfect number for a decimal system. The suggestion was to coin an eight-shilling piece divided into 100 pence which could be called a metric pound. This would be a parallel currency running side by side with the existing coinage. So far so good. But the problem was that such a move would devalue the penny by nearly 4%. As Bagehot points out this would represent a tax which would not be taken kindly to. Moreover, it would make calculations in the other units, and in other currencies extremely difficult. His prediction for such a plan is

¹⁸ *Ibid.*, vol. 10, p. 275 ff.

¹⁹ *Ibid.*, vol. 9, p. 98.

that "it would begin by creating blunders and causing plague...it would be unpopular... and the mass of the community could not be persuaded to change the petty coins they use and reckon in".²⁰ For a parallel currency to become first acceptable and then dominant it needs to be easily translatable into the other currencies in circulation.

(b) The farthing plan

But deep down Bagehot's eyes were directed much more across the Atlantic than towards France. A monetary union with America was to him much more appealing, and technically seemed much easier to attain with the farthing plan.

At the official exchange rate of 4s.2d. to a dollar, the half-eagle (5 dollars) was equal to £1.0s.10d. which was exactly 1000 farthings. 1000 is a good decimal number. Bagehot suggested the minting of a coin to be called a "universal", equal to £1.0s.10d, which could circulate side by side with the existing coinage. It would be a parallel currency to be used if desired. Moreover, there was an easy method of translating any price quotation, whether expressed in American or British money, into "universals". To convert a price quotation in £.s.d. to "universals" convert it first into farthings and then move the decimal point three places to the left. To convert a price quotation in dollars to "universals" move the decimal point one place to the left and multiply by two. "It would therefore be... easy to found a great Anglo-Saxon system of coins which would be common to both the great nations which speak the English language".

Bagehot recognized that such a union would separate the French and other members of the Latin union from the proposed Anglo-Saxon union. But he believed that sooner or later Germany would join the Anglo-Saxon union and in any world competition for a universal money "it is very likely that the Anglo-Saxon money would become the *one* money." Moreover, he believed that Americans would "consider a union with England of greater importance than a union with the nations who have copied the French coinage". The plan required a minor adjustment in the gold content of the American

²⁰ *Ibid.*, p. 89.

currency but Bagehot was convinced that "it is not probable that the Americans would object to a slight change for the purpose of founding a monetary union primarily with England, and gradually we may hope with much if not all the civilised world"²¹

There is a certain pathos in reading these lines implying and relying on a special relationship with America. In his analysis of the monetary problems Ruggles, the American delegate to the Paris conference was writing about this time to Seward, the American Secretary of State. Considering a previous proposal for a monetary unification with Britain he says

"It must be evident... that such a conjunction of the coinage of the United Kingdom and the United States... would have brought the monetary system of the two nations into perpetual antagonism with the system or systems of the European continent now embracing a population of 250 million — not to mention the possibility of... ultimately bringing the populous nations of Asia... into one common world — embracing system to remain united while modern civilisations endure... we surely may indulge the hope that the practical and clear headed Anglo-Saxon race... abandoning narrow prejudices and worn out traditions, may be found cordially agreeing on a common money for the use of civilised man."²²

That special relationship then and now is often viewed differently from the two sides of the Atlantic.

Given such disparate views it is not surprising that nothing came of the hoped monetary union with America.

4. Act 4. The demise of the Latin monetary union

In the closing years of the 1860s there was still hope that the Latin monetary union would expand to embrace other European countries. Greece joined the union in 1867, though with its large circulation of paper money, struggling to maintain convertibility, it was possibly not such a great fish to catch. Austria, a real catch, was the one that got

²¹ *Ibid.*, p. 93.

²² *Diplomatic correspondence*, p. 372.

away. In 1867 a special commission carried a resolution stating that "Austria ought to associate herself actively in the efforts of the French government after a universal monetary union and the creation of a universal money".²³ But Austria, like many other potential joiners was adamant that a gold standard should be adopted. The French still insisted on bimetallism. A treaty was signed between France and Austria to accept each other's gold currencies but full-fledged monetary union was impossible. There were negotiations with Spain and even some moves in Spain to establish the French currencies. In 1868 Sweden started coining some gold pieces "after the French system". However, two events one political and one economic soon stopped the impetus to the extension of the union and ultimately led to its demise.

On July 1870 the Franco-Prussian war started. The economic consequences of that war and the payment of the German indemnity agreed at the peace treaty in May 1871 after the German victory, were in themselves not sufficient to explain the loss of impetus to monetary union. The political consequences were much more important. France had been the political leader and the main force in the attempt to expand the monetary union based on the French currency. The war changed all that. Germany now became the leader in monetary affairs and adopted a gold standard. To ensure that it was not in any way associated with France and French history — the memory of the humiliating defeat at Jena in 1806 was still very powerful — Germany adopted a gold basis that was totally different and incompatible with the French system. A European monetary union, even one based on gold, was now out of the question.

But it was the economic events that slowly eroded the existing union. From about the end of 1869 for the next two decades or so the price of silver started falling relative to gold and bimetallism worked its merry deeds. First in a trickle, soon in a flood, silver started flowing into the countries of the Latin union and gold was displaced. The disruptive economic effects of the coinage of so much silver were felt differently in the different countries, but all were suffering. Some

²³ WILLIS, p. 82.

countries, including France, started limiting their coinage of silver, but as all were bound to accept each other's coins such action by an individual country just meant that it ended up with the coins of its neighbours. In late 1873 the Bank of France refused to make further advances on the basis of silver and became reluctant to receive Belgian and Italian coins, one of the fundamental requirements of the monetary union. Italy who throughout the history of the union had been given special treatment was issuing large amounts of paper money forcing its coinage onto the other members. Germany was shifting to a gold standard and was dumping silver onto the French and the other members of the Latin union. So various rules to limit the amount of coins issued, to control the paper currency issued and to ensure the future redemption of coins by the issuer had to be introduced. At the convention of 1878, for example, Italy was required to withdraw some of its paper currency notes and to stop issuing some silver coins. It threatened not to ratify the treaty unless it was given special exemptions to issue silver coins.

Belatedly and still reluctantly France was moving to a gold standard system. Bimetallism was causing too many economic problems. The force of economic circumstances was greater than the power of tradition. But France, the largest member of the union, had a massive overhang of silver coinage. Some its own, much of it issued by the other members. The problem of redemption of these coins, and the conflicts it raised, slowly undermined the union. The basic elements of a monetary union, the uniformity of coinage, and their free circulation had by now been so circumscribed by detailed regulation that except on paper the union was finished. It took many years for the death to be recognized officially. The smaller countries had large amounts of French silver coins in circulation which, with the falling world price of silver, were not worth very much. The hope that these would be redeemed in the future, preferably for gold, kept them bound to France. So, like a squabbling family tied by the hope of a share of a dead ancestor's property, the countries of the Latin Union clung together in the hope of ultimate redemption, preferably in gold.

The final irony of this whole story came from America. The great

silver discoveries in Nevada in 1874 strengthened the bimetallic moves in America. A commission of 1875 recommended the establishment of bimetallism. The silver party had strong support in Congress and in 1878 the Bland Act was passed authorizing the coinage of silver dollars once again. America now became the champion for the return to bimetallism and attempted to interest Europe, particularly the countries of the Latin union, in the scheme. But these countries had been suffering for many years. So for them the play had ended by the time America made its overture. At the International Monetary Conference in 1878 the Belgian delegate's response to the American overture was emphatic "the double standard results in organizing monetary crises".²⁴ What would, Mr. Ruggles have said? What did he say? At the Paris conference only 21 years earlier bimetallism in the Latin union was the biggest barrier to the forming of a great international monetary union including America because in his words, "the legislature... have sufficiently learned... that the system of a double standard is not only a fallacy but an impossibility". But political exigencies often cause amnesia.

In his study of the Latin union in 1902 Willis concludes that "as an experiment in international monetary action [it] has proved a failure. Its history serves merely to throw some light upon the difficulties which are likely to be encountered in any international attempt to regulate monetary systems in common". (p. 267) But learning from history is not an easy task. Often superficial eye-catching differences cover up underlying similarities.

The fundamental reason for the breakdown of the Latin monetary union was that economic disturbances have different effects on different countries. Because of this, in one economic environment the countries may, to use the current jargon, converge in some relevant sense. But in a changed economic environment they can as easily diverge. Moreover, when the rigid system starts creaking more and more detailed intervention in national economic decisions becomes necessary.

²⁴ WILLIS, p. 129.

The specific changes in the economic environment that will affect the system and the specific intervention required will vary according to the type of monetary and other economic structures present. In the 1860s and 1870s the external economic disturbances came from the varying world output of gold and silver. This resulted in sometimes massive, but differential effects, on the money inflows into the countries of the union. And these money flows had further economic effects. The internal disturbances came from the issue of paper currencies by the member countries and the effects of this on the flow of metallic money to their neighbours. The interventions undertaken were aimed at neutralizing such monetary flows and their economic consequences.

In the 1990s the economic disturbances are different. With flexible exchange rates between the countries of a monetary union and the rest of the world, external events need not affect the quantity of money in the union. With a single central bank individual countries will be unable to introduce monetary changes. But real disturbances do and will continue to exist. A change in the real income in the rest of the world will affect the exports of the countries in a union differently, and they may wish to respond differently. Fiscal policy, now an important element in an economy, can affect other economies tied to it by a monetary union. To cope with these disturbances different interventions will be required than those used in the 1870s. But the general problem and the need to foresee its inevitability is independent of these details.

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