
NOTES

International Monetary Unions: the XIXth Century Experience

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A. HISTORICAL BACKGROUND.

The experiments in monetary union in the nineteenth century are interesting examples of attempts to establish a common coinage and currency system for a number of clearly distinct nation states. The history of such attempts goes back, however, at least to the mid-fourteenth century. These earlier attempts involved principalities, states and even some major trading cities. For the most part the arrangements were limited to agreements regarding coinage and exchange, often establishing a common unit of account for transactions purposes. These sporadic and limited attempts were the forerunners of more concerted and significant international monetary arrangements which sought to establish a basis for international monetary integration on a regional basis.

B. THE AUSTRO-GERMAN MONETARY UNION.

1. *Main Features of the Union.* — A truly international monetary union was formed in 1857 when Austria concluded a treaty with the members of the German Zollverein or customs union. Although the motivation for Austrian participation may well have been predominantly political, the Austro-German monetary union is of interest since it represents one of the first major attempts to form an international monetary union. There were three distinct currency units linked together by a stipulated constant rate of conversion and a common unit of account, the silver mark. Prussia and the

northern states used a thaler which was valued at 14 to the silver mark. Bavaria and its associated southern states had a florin, 24.5 of which were required to equal a silver mark. Austria's prime currency unit was also denominated a florin but with a value slightly higher than the Bavarian one. The exchange rate of the Prussian and Bavarian units had been established by previous treaties and the agreements of 1857 simply linked these units to the Austrian monetary system.¹ There was no attempt to establish a common coin which would replace all existing national currency units. However, there was provision for a Vereinsthaler, a silver coin equivalent to one Prussian thaler which was to be permitted to circulate in all three areas. The treaty provided for a minimum number of these coins which were to be struck each year with the expectation that this would ensure a growing circulation for this common unit. It is interesting to note that Prussian preponderance was reflected in the designation of its unit to be the basis of the common coin. It should also be noted that the system was established on a silver standard in spite of Austrian preference for a gold basis.²

Since gold was an increasingly important element in international commercial and financial relations, the Austro-German Union also provided for gold currency units, the krone and half-krone, which were to be valid only for external payments purposes. Since there was no set rate of exchange between gold and silver, this important relationship was left to be determined in the free market. Another important element of the union was the treaty stipulation that all paper currency was to be redeemable into silver without exception after January, 1859.³

The dissolution of the Austro-German monetary union was the obvious result of the political conflict which erupted into war between Austria and Prussia in 1866. Victorious Prussia, under the leadership of Bismarck, formed the North German Confederation, which in turn became the vehicle for the unification and consolidation of modern Germany.

2. *Evaluation of the Austro-German Union.* — In evaluation of the Austro-German monetary union, several significant aspects should be noted which are relevant to the study and analysis of international monetary unions as a step toward further international financial integration, including the establishment of regional monetary systems. Schloss has suggested some of the weaknesses of the Austro-German union.

First, an attempt at monetary union between political rivals or in a context of political instability is fraught with potential difficulty. The temp-

¹ J. LAURENCE LAUGHLIN, *A New Exposition of Money, Credit and Prices*, University of Chicago Press, Chicago, Ill. 1931, vol. 1, p. 216.

² *Ibid.*, p. 217; Y. BITAR, *Les Unions Monétaires* (Damas: Université Catholique De Louvain, 1953), p. 14.

³ *Ibid.*, p. 15.

tation to use the monetary union as a means for expanding national power and influence is great. This may well lead to rivalries that cripple the economic and financial operations of the union. Even if this does not occur and the protagonists seek to insulate the monetary union from their conflict, the political struggle may undo the financial and monetary links, as in the case of the Austro-German union.

Secondly, the Austro-German union provided for the convertibility of silver without exception. This seems an unusually inflexible requirement since the monetary history of the most respected financial institutions had recorded occasional instances when specie payment had to be temporarily suspended or when there has had to be an emergency suspension in redemption of notes. It would seem more prudent to provide for unexpected emergencies with a provision for appropriate temporary measures with agreed consultation between the contracting parties.⁴

Thirdly, it cannot be expected that the contracting parties will automatically assume their treaty obligations in a monetary union without some sanctions or means of enforcement. This strongly implies the necessity of a supranational agency or at least an agreed mode for the settlement of disputes or differences when they arise. The lack of this was a critical weakness of the Austro-German union.⁵

Fourthly, as Schloss points out, the force of public custom can greatly inhibit the effectiveness of a monetary union. If the public has become accustomed to certain modes of payment or particular types of money, they may be quite slow to change and adopt the requirements of a new monetary system. It is interesting to note in this connection that as late as forty years after the dissolution of the union there were still violent controversies related to the elimination of Austrian coins from German circulation. This would indicate that planning for monetary union should include a careful study of the monetary preferences and habits of the general public along with provision for careful education concerning the proposed integration.⁶

Finally, it should be noted that the monetary integration of the Austro-German union was very limited. Despite the existence of the Vereinsthaler, minted by the participants, there was no real integration of the banking and monetary system of the members of the union. In essence, the union was a formal obligation to maintain stipulated rates of exchange among their respective currencies. Schloss notes that even this treaty obligation was nullified by market forces when confidence in the Austrian thaler deteriorated and the exchange rate moved against it.⁷

⁴ H. H. SCHLOSS, *The Bank for International Settlements*, North-Holland Publishing Co., Amsterdam, 1958, p. 19.

⁵ *Ibid.*, p. 19.

⁶ *Ibid.*, p. 19.

⁷ *Ibid.*, p. 19.

C. THE LATIN MONETARY UNION.

1. *General Background of the Union.* — The Latin Monetary Union was the most important monetary union based on a metallic standard. It was significant because of the importance of its members and because of its role in stimulating international action towards monetary collaboration in the latter half of the nineteenth century. France was the initiating force in establishing the union which was created by treaty signed on December 23, 1865, by France, Belgium, Switzerland and Italy.

Science and technology had made remarkable strides in the first half of the nineteenth century. The spirit of the age was typified by the Great Exhibition sponsored by the English Crown and held in London in 1851. The theme of the exhibition was « Progress », a concept paramount in the minds of men of that age. In less than half a century, human effort had been substantially displaced by machinery and animate sources of energy were being replaced by the new inanimate sources of power. Although the process of industrial change had been going on for nearly three centuries, it had sharply accelerated near the close of the eighteenth century and the first half of the nineteenth century.

It was part of the temper of the age that there was a great movement towards securing international uniformity of weights and measurements. This impulse was also from practical men of commerce and trade who sensed the efficiencies that such standardization would bring. The matter was discussed extensively by various scientific committees and assemblies at the London Exhibition in 1851. It was taken up in 1853 by the International Statistical Congress in Brussels. The subject of money entered these discussions primarily in its role as a unit of account or standard of value. A significant step was taken by an International Statistical Congress in Berlin in 1863 which voted unanimously that the various governments be « invited to send to a special congress delegates authorized to consider and report what should be the relative weights in the material system of gold and silver coins, and to arrange the details by which the monetary system of different countries » could be made uniform by using a single unit of account with decimal subdivision.⁸

The congress was convened in 1863 and the question of uniform coinage was studied thoroughly. A special committee made an extensive report which recommended the decimalization of the pound sterling and a redenomination of the leading currency units to place them on a decimal basis, thereby linking the major currency units together on an easily computed basis. However, two major obstacles prevented further progress in this direction. Representatives of the United States and England could not agree on a change in valuation or denomination which would appear to affect the relative prestige of their respective currency units. For example, Samuel B. Ruggles of the

⁸ HENRY B. RUSSELL, *International Monetary Conference* (New York, 1898), p. 21.

United States, made a proposal that the English sovereign and the U. S. half-eagle be made equivalent to 25 French francs, a move which would have linked the three major currencies in terms of gold value.⁹ This was unacceptable to the English because it appeared to reduce the relative standing of their basic currency unit. The second barrier was related to the struggle by some of the countries to maintain a bimetallic standard in opposition to the rapidly growing sentiment for a single gold standard such as England had adopted in 1816. Disagreement on these basic matters caused a deadlock in the discussions and the next significant moves in the world of international monetary cooperation were made by France.

2. *Disturbing International Monetary Developments.* — The startling occurrence of two major gold strikes in the middle of the nineteenth century was to have a profound impact on the world's monetary systems and the system of international finance. Gold was discovered on the Pacific coast of North America in 1848 and within three years, tremendous deposits were also found in Australia. In addition, there was an increase in the supply from Russian deposits in the Urals. The result of this sharply expanded gold output was to produce a tremendous change in the rate of gold production to silver production. Francis Walker, economist and President of M.I.T. at the turn of the century, estimated that in the decade 1810-1820, the production of silver to gold had been, by weight, 50 to 1. During the decade 1851-60 it was only 4.4 to 1.¹⁰ Contemporary analysts feared a sharp decline in the value of gold and one French authority, Chevalier, in his book, *The Probable Fall in the Value of Gold*,¹¹ alluded to a possible decline of gold to half its former value. Commercial and financial interests began proposing « silver clauses » in long term contracts with the hope of retaining value in face of the impending financial dislocation. The threatened storm did not erupt with the severity expected. Indeed France must be given a large measure of credit for the comparative stability of this transition when the newly minted gold found its way into monetary circulation. « Between 1850 and 1865 France again influenced the relative value of the two metals, this time both by buying enormously of gold and by selling silver largely ».¹²

3. *The French Monetary Situation.* — The French monetary structure at the time of the formation of the Latin Union was derived from legislation of 1803 which had based the franc upon five grams of silver, .900 fine. However, there was a measure of ambiguity since the law provided for gold coins as well. At first these were regarded as auxiliary means of payment

⁹ *Ibid.*, p. 21.

¹⁰ FRANCIS A. WALKER, *International Bimetallism* (New York: Henry Holt & Company, 1896), p. 122.

¹¹ *Ibid.*, p. 123.

¹² *Ibid.*, p. 128.

only, but after 1848 there was a growing uneasiness about the relative place of the two metals in the domestic monetary system. The monetary question became the prime issue in domestic French political debate. The bimetallists were essentially advocates of the status quo which meant very likely an alternating standard. The monometallists were divided into advocates of silver and gold standards respectively.

A French governmental commission called in 1858 to study the monetary question rejected bimetallism as impracticable since it would not provide a uniform single standard of value. Other alternatives were discussed but no real conclusions were reached nor any significant direction in policy indicated. The controversy over monetary standards continued unabated and the matter was finally brought to a point of urgency because of the continued export of silver and the drastic reduction in subsidiary coinage in circulation. French authorities were alarmed at these developments and public opinion became increasingly vocal in support of the adoption of the gold standard as the most viable course. The government, however, did not take any really energetic measures but sought to solve the problem by the expedient of adjusting the fine content of the fractional silver coinage. The result was to create a difference in fineness that plagued trade, commerce and travel with the neighbouring states of Belgium, Switzerland and Italy. It was increasingly apparent that the only solution to the distressing and chaotic state of affairs would be by concerted international action.¹³

4. *The Monetary Situation in Belgium, Switzerland and Italy.* — Belgium had achieved her independence from Holland in 1831 and strengthened her ties with France by adopting the French coinage system at that time. The basic unit of currency was the franc, defined in an identical manner as the French franc. For all practical purposes, Belgium was a monetary satellite of France. However, in 1847, the Belgian legislature adopted some measures which seemed to lay the basis for a subsequent introduction of the gold standard. These measures only created confusion and compounded the difficulties which already existed in the relationship of gold and silver. An extremely confusing internal monetary situation followed, caused by speculators and arbitrageurs who sought to take advantage of the variations in mint standards and market values relating to gold and silver in the countries of western Europe. In 1860, the circulation of subsidiary coin in Belgium was actually 87% French with the remainder Belgian.¹⁴ Gold was widely used in Belgium but there were difficulties associated with its use since it was not legal tender and the denominations of the gold pieces were too large for many everyday transactions. The difficult position of Belgium was sum-

¹³ U. S., CONGRESS, SENATE, *International Monetary Conference*, 45th Congress, 3rd Session, Senate Executive Document No. 58 (Washington, 1879), pp. 783-785.

¹⁴ WILLIS, *A History of the Latin Monetary Union*, p. 23.

marized by the Belgian representative, M. Kreglinger, in a speech at the opening session of the first convention of the Latin Union.

Belgium, being placed between France, where gold has become in fact the real monetary standard, England, where gold is in law and fact also the sole monetary metal, and Germany where silver is the sole legal standard, but where gold nevertheless obtains a very important effective circulation, is naturally called to serve as ground of union between these different countries for their monetary transactions.¹⁵

Switzerland's monetary constitution had been unified in 1848 when the separate cantons were deprived of their old rights to their own coinage systems and the sole control of monetary affairs was assumed by the central government. Legislation in 1850 placed the Swiss monetary system on the French standard. Although there was no specific provision for gold, the Swiss became accustomed to the use of French gold. With the adoption of French law and custom as the basis of their monetary system, the Swiss also took on the inherent ambiguities that were serious drawbacks in the French order.¹⁶

Political unification in Italy brought in its wake the same sort of monetary unification that Switzerland experienced. Italian coinage was on the French standard with an exception which set up a lower fineness for subsidiary coins.

It is apparent from the foregoing that the basis for monetary cooperation among these four states, France, Belgium, Switzerland and Italy, was made much easier because of their prior adherence to the French standard. The immediate problem was the reduction in the fineness of the subsidiary coins of Italy and Switzerland which led to obvious difficulties in commercial and even governmental transactions. Louis Napoleon invited the three other nations to a conference in Paris which opened in November of 1865. France had a strong interest in the maintenance of the financial and monetary ties that had existed up to that time.

5. *The Monetary Convention of 1865.* — The position of France was made clear at the outset. It was essentially an attempt to maintain the status quo with dependency on France in monetary affairs. In contrast, the other participants were most interested in discussing the question of a revision of the basic monetary standard. At the insistence of the delegations of the three smaller countries, formal recognition of the problem was finally granted and the matter was placed on the agenda... at the end. This tactical achievement, however, did not really enable the smaller countries to overcome French resistance to open the discussion to the matter of basic monetary standards. The Belgian delegate, along with his Swiss and Italian counter-

¹⁵ *Ibid.*, p. 24.

¹⁶ *Ibid.*, p. 28.

parts, made formal demands for the adoption of the gold standard. The French replies were vague and unconvincing. Indeed, there is considerable evidence that a good part of the French delegation favoured an adoption of the gold standard.¹⁷

The official French position prevailed. The resulting treaty, which formally constituted the Latin Union was basically a codification of the status quo. Because of French leadership, the basic concern of the conference was to secure the perfect homogeneity in the coinages of the various states.

A question then remains. If there was such widespread sentiment for the gold standard in France, western Europe and among contemporary economists and monetary experts, why did the French government not move in that direction? It is the thesis of Henry Parker Willis that the French government, under the Emperor Napoleon, was very much influenced by dependence on the Bank of France and the financial leaders who were interested in maintaining the existing system. The basic argument from these quarters was that the system had operated well over the half century and should not be lightly discarded, particularly without concerted international action. It should also be borne in mind that bimetallism provided the best opportunity for very profitable arbitrage operations.¹⁸ The political impetus should not be neglected either. Some analysts have argued that the Latin Union was not as much aimed at economic and financial coordination as it was directed towards the furtherance of French power and influence in western Europe.¹⁹

The results of the conference were embodied in the treaty of 1865. The preamble to the treaty stated that its purpose was to establish a monetary union to provide for a uniformity of coinage among the contracting parties. The four participants agreed to mint only coins of common weight, fineness, diameter, etc. which would be reciprocally received by their public treasuries. There was an interesting provision which limited the issue of silver pieces and subsidiary coin to a formula based on respective population size. It was intended that other nations might want to join the union and therefore provision was made for accession which was open to any state that would accept the obligations of the union. Admission was then to be formally granted by a unanimous vote of the contracting parties.²⁰

The treaty did accomplish the limited objectives which the French government had sought. The contracting states had agreed to uniform standards in the minting and issuance of gold and silver coins. The French system had been extended and internationalized, but only to a limited degree.

Greece was nominally admitted but her admission was scarcely a positive

¹⁷ *Ibid.*, p. 43.

¹⁸ *Ibid.*, p. 57-60.

¹⁹ HENRY B. RUSSELL, *International Monetary Conference*, p. 24.

²⁰ U. S., CONGRESS, SENATE, *International Monetary Conference*, pp. 787-789.

achievement because of her unsound financial and economic condition. Willis notes « Thus Greece was a mere useless appendage to the Monetary League ». ²¹ A bilateral treaty between Austria and France added an important party to the monetary constellation without formal admission to the Latin Union. Spain and Romania took steps to adopt the franc system, so by 1880 approximately eighteen states used the French monetary unit as the basis of their own systems. Since France and her monetary allies were adamant in maintaining a silver standard, they were running against the tide of world sentiment and practice which was growing heavily in favour of a gold standard.

6. *Evaluation of the Latin Union.* — The Latin Monetary Union was a failure. One of the basic reasons for its formation was the temporary relative decline in the value of gold to silver and the consequent withdrawal of silver coins from circulation. However, shortly after the formation of the Union, silver began to fall relative to gold. This development was due to a number of factors, including: (1) the demonetization of silver and the adoption of a gold standard by major trading nations; (2) the increasing use of paper and subsidiary coin other than silver; (3) the increase in silver production in North America; and (4) the growing commercial preference for gold over silver, even in nations ostensibly on the silver standard. ²² This decline in the relative value of silver compelled the member nations of the Latin Union to suspend free coinage of silver because of the flood of silver which they could expect due to the overpricing of silver at their mints. ²³ France and her partners were caught in a silver vice. The members of the Union soon became preoccupied with measures to maintain the value of the silver franc coins. The dissolution of the Union was opposed by France because the redemption of her silver coinage outstanding would have entailed tremendous losses.

A supplementary treaty was signed in Paris in 1874 which formally bound the members to severely restrict silver coinage. The individual members actually moved beyond this and most of them suspended silver coinage through domestic legislation. In 1878, the entire Union agreed to suspend silver coinage. This was the de facto end of the Union. The Union technically survived until immediately after the First World War when a conference of the member state was held in Berne in 1921, to arrange for its liquidation. Finally on December 31, 1926, Switzerland addressed a series of notes of the other members and indicated her withdrawal. The Union was now formally at an end. ²⁴

²¹ WILLIS, *A History of the Latin Monetary Union*, p. 81.

²² E. BOURQUIN, *Les Transformations Survenues Dans L'Union Monétaire Latine*, Belfort, 1924, pp. 13-14; B. FOURTENS, *La Fin De L'Union Monétaire Latine*, Paris, 1930, pp. 99-100.

²³ LAUGHLIN, p. 164.

²⁴ BITAR, p. 45.

Several observations may be made from the experience of the Latin Monetary Union. First, to a great extent it represented an attempt at political domination by France. There is little question that France under Louis Napoleon regarded the Latin Union as a means for extending French power and prestige. The extension of the French franc system was seen as the extension of French influence. This sort of motivation is hardly appropriate for a system of monetary cooperation which seeks to be international in scope. This is not to say that a predominant role should not have been played by France. It is rather that her extremely selfish ambitions were apparent and tended to militate against the extension of the system which she proposed.

Secondly, the experience of the Latin Union with silver points out the danger of attempting to infer the future from the past. French policy makers had observed the temporary decline in gold versus silver and were certain this trend would continue. Historical experience and perspective is indispensable in analyzing human affairs but in this case it was made an automatic and uncritical basis of policy.

Thirdly, the Latin Union demonstrated the weakness of an international monetary system without adequate mechanism for coordination and determination of major policy issues as they occur. A secretariat or international organization is necessary for determination of the facts and issues which confront the policy makers. Machinery must also be provided to enable the nations to consult and agree on effective coordinated action. The Latin Union was handicapped by the absence of both these elements.

Finally, the Latin Union demonstrates the difficulty of securing substantive international cooperation without some reduction in the freedom of action and prerogatives of the member states. The participants were unwilling to bind themselves to very much in the way of concerted action which would compromise their sovereignty in any degree.

D. THE SCANDINAVIAN MONETARY UNION.

1. *General Background.* — The Scandinavian Monetary Union was inspired in part by the attempt at monetary union undertaken by France and her partners as well as the general movement towards a uniform money system among the leading commercial nations of the world. The currency systems of the Scandinavian countries in the middle of the nineteenth century were based on the silver standard. Sweden and Denmark had coinage systems which were related but not exactly equivalent. In each of the countries, however, bank notes formed an important part of the domestic medium of exchange.²⁵

²⁵ A. E. JANSSEN, *Les Conventions Monétaires*, pp. 105-106.

Following the International Monetary Conference of 1867, the Swedish government undertook a monetary reform in 1869 which recommended three basic objectives in a programme of monetary reform:

1. Removal of the differences between the Swedish monetary system and that of her neighbouring countries.
2. Adoption of the gold standard.
3. Eventual participation in an international monetary union.²⁶

Although there had been some thought of linking with the Latin Union, the obstinate position of France in maintaining a bi-metallic standard proved enough to deter the Scandinavian countries. In addition, developments in Europe in the years 1870-71 confirmed to these countries the desirability of moving to a single gold standard. The New German Empire, established at the conclusion of the Franco-Prussian War, had built its monetary structure on gold. Scandinavian trade and commercial ties with northern Germany were well established and extensive so the German move to gold was very significant for these countries. In view of these developments, the Scandinavian nations took steps to initiate joint monetary action. In 1872, representatives of Denmark, Norway and Sweden met in Copenhagen to explore the possibilities of monetary cooperation. A report was issued by this conference which called for a monetary union of the three nations. A convention, establishing the Scandinavian Monetary Union was drafted and signed by Sweden and Denmark in 1873 while Norway did not finally accede until 1875, mainly because of anti-Swedish domestic political sentiment.²⁷

2. *Nature of the Scandinavian Monetary Union.* — The monetary convention establishing the Scandinavian Monetary Union provided for a single metallic standard based on gold with « silver and other inferior metals serving as subsidiary currency ».²⁸ The monetary unit established by the treaty was the Krone which was sub-divided into 100 Ore. All three countries agreed to adopt identical styles of coin; both for the full-bodied gold as well as the subsidiary token coinage. The Scandinavian Union did not adopt the standard unit of any other country or monetary system but instead introduced their own. There were two gold coins to be minted; a 10 Krone piece and a 20 Krone piece. The convention also provided for standard subsidiary coins to be composed of silver and bronze. There was no attempt to regulate the amount of subsidiary coinage as had been done by the Latin Union. Each nation was granted the right to issue subsidiary coins as it deemed necessary.

²⁶ *Ibid.*, p. 107.

²⁷ *Ibid.*, p. 111.

²⁸ *Ibid.*, p. 112.

Since the contracting parties were obligated to redeem their subsidiary coin in gold, the question of liquidation which had proved so difficult for the Latin Union was greatly simplified in the Scandinavian Union. This meant, in effect, that subsidiary coins were linked to a gold value and the intrinsic metallic value of the subsidiary coinage was not significant in maintaining confidence.²⁹ Although the Scandinavian Union provided for a common gold coinage, this was never the most significant element in domestic monetary circulation. The Scandinavian countries, particularly Sweden, had for many years become accustomed to the use of bank notes. The following table gives estimated comparative data for 1885 on the respective composition of the monetary structure of the members of the Scandinavian Union:³⁰

MONETARY COMPOSITION OF THE SCANDINAVIAN UNION
(data in millions of Krone)

	Denmark	Norway	Sweden
Gold in Banks	k 46.3	19.4	21.6
Gold in Circulation	3.0	1.0	11.0
Silver Coinage	18.5	5.0	15.5
Bronze Coinage	.7	.3	.9
Uncovered Notes	23.8	17.7	64.1
<i>Total</i>	k 92.3	43.4	113.1

It is apparent from the foregoing that gold was essentially a reserve currency and that the general populace of the Scandinavian countries during this era were quite modern in their preference for using bank notes for the major part of their transactions. The experience of the Scandinavian Union demonstrated clearly that if there is general confidence in the banking system, bank notes will become the principal medium of exchange while gold will tend to remain in the vaults as reserve. The Scandinavian currency systems were not all-gold currencies but currencies based on a gold reserve only.³¹

In the original convention establishing the Scandinavian Union, there had been no express provision for the inter-circulation of bank notes. However, it soon became customary for the central banks of each of these countries to receive the notes of the other two countries and forward them for credit to a current account maintained by each of the banks for this

²⁹ BITAR, p. 48.

³⁰ JANSSEN, p. 131.

³¹ M. A. HEILPERIN, *International Monetary Economics*, Longmans, Green and Co., London 1939, p. 16.

purpose.³² A rudimentary clearing system was the result and a considerable volume was handled in this fashion.³³

In order to further simplify payments between the three countries, they adopted a convention in 1881 which provided for the regulation of credit and exchange instruments on a uniform basis. In 1885, a treaty was also signed which further regularized the clearing arrangements which had developed rather spontaneously.³⁴ The three central banks were authorized to include the current account balances held in the other two banks as part of their reserve. This was based on the assumption that such balances could be redeemed in gold on demand. Although there was provision for the settlement of net debit balances in gold, the effect of these arrangements was a remarkable decline in the volume of gold transfers despite an increased volume of trade among the three countries. The Scandinavian Union thus succeeded in economizing on gold and establishing a quite efficient international clearing mechanism.

The effect of this system was to enable the Scandinavian Monetary Union to go far beyond the Latin Union in facilitating international payments. The Latin Union had been built around a metallic circulating medium. The Scandinavian Union provided for the inter-circulation of metallic money and subsidiary coin, but, more significantly, it encouraged the intercirculation of bank note money — a medium of exchange only indirectly related to a intrinsic or commodity value. The intercirculation of bank notes had not been provided for in the treaties governing the Scandinavian Union, but it was the practical result of the stability of exchange rates among the participating nations.

3. *The Demise of the Scandinavian Monetary Union.* — The collapse of the Scandinavian Monetary Union resulted from the same type of circumstances which had brought an end to the Austro-German Union and the Latin Monetary Union, although the Scandinavian Union had the advantage of countries with similar political orientation as well as the single gold standard. World War I had an unsettling effect on the economic and financial structure of the Scandinavian countries. They managed to remain neutral in the conflict and actually benefited to a great extent because of the strong export demand for their products. Because of the war conditions, the three countries suspended gold payments in 1914. During the war, disparities in their relative price structures and the massive inflow of gold, particularly to Sweden, soon led to disrupting effects in the respective exchange values of the three currencies.³⁵

³² P. F. HECKSCHER, *Sweden, Norway, Denmark and Iceland in the World War*, New Haven, Yale University Press, 1930, pp. 130-131.

³³ BITAR, *Les Unions Monétaires*, pp. 49-50.

³⁴ JANSSEN, *Les Conventions Monétaires*, pp. 136-139.

³⁵ HECKSCHER, *Sweden, Norway, Denmark and Iceland*, p. 192.

Cassel stated the dilemma of the Scandinavian countries clearly in a memorandum to the Swedish Riksbank in 1916:

This influx of gold, with which the neutral countries have for the present to reckon, is apt to cause an unsound increase in the quantity of the means of payment, which in its turn tends to promote a speculative expansion of industry that may lead to overspeculation and then probably end in an economic crisis.³⁶

In February of 1916, Sweden negotiated with her partners to suspend gold coinage and place an embargo on gold imports from sources outside the Union. Cassel notes that this policy of gold exclusion marked a transition « to a free standard which will be regulated irrespective of any metal and exclusively with a view to the country's interest in having a standard of value as stable as possible ».³⁷ However, Danish and Norwegian gold coin was still imported to Sweden and soon Sweden was exposed to a continuing inflow from these sources until an agreement was reached in the autumn of 1917 when the three nations agreed to a mutual « gold exclusion policy ». This marked the end of the Scandinavian Monetary Union for all practical purposes.

4. *Evaluation of the Scandinavian Monetary Union.* — The Scandinavian Monetary Union was the most successful of the pre-World War I monetary unions. It lasted over forty years and over that period demonstrated remarkable stability and effectiveness. It went beyond the previous experiments in monetary union by its provision for inter-circulation of bank notes and central bank cooperation to facilitate the clearing of gold made possible by its fiduciary note issues and multilateral clearings which also permitted external balances to be counted as reserves.

The Scandinavian Monetary Union is also interesting from the standpoint of modern monetary history because of Swedish abandonment of a metal basis for its currency system. In severing its currency from gold, Sweden attempted a new and novel line of policy.³⁸ It is true that the notable Swedish economist, Knut Wicksell, argued for a separation of the currency from gold in order to achieve greater price stability, but no nation had adopted this logic in practice. Other European countries had abandoned silver in the last half of the nineteenth century because it was depreciating in value, but they had subsequently adopted another metallic standard using gold. Sweden found itself in circumstances which compelled it to lead the world, almost unwittingly and unwillingly, into the era of managed monetary systems, divorced from a metallic base.

³⁶ G. CASSELL, *Money and Foreign Exchange After 1914*, MacMillan Co., New York, 1922, p. 83.

³⁷ *Ibid.*, p. 84.

³⁸ R. A. LESTER, *Monetary Experiments*, Princeton University Press, 1939, p. 175.

What were the reasons for the success of the Union? The stability of the respective currencies and their rates of exchange was certainly a key factor. The stability of exchange rates of the three currencies made possible the continuing intercirculation of notes and the efficient clearing mechanism. Janssen attributes the success of the Union to this essential condition of exchange stability.³⁹ There were, of course, underlying reasons why this exchange stability was possible. The character of the economies of the three Scandinavian countries was essentially similar. They were largely agricultural with extractive and forest industries which complemented agriculture. All had extensive fishing and maritime trading connections. None of the countries was considered a financial centre so they were somewhat removed from the stresses that occasionally occurred in international finance, affecting adversely those centres which were more involved. They were thus able to avoid the unsettling effects of massive capital flows. Arbitrage operations were not as important either and this made the task of monetary management far simpler for the respective central banks. Profitable arbitrage operations were among the factors which caused French financial interests to seek to maintain the bi-metallic standard in the face of very strong logic for a single gold standard.

The experience of the Scandinavian Monetary Union is significant in the analysis and history of international money because it provides a clear example of nearly forty years of extensive monetary cooperation and integration by three sovereign powers. It is particularly noteworthy because of the intercirculation of bank notes and the clearing system which developed during the life of the Union.

Although the ostensible cause of the failure of the Union was the disruptive effects of the First World war, there is another factor which remains constant in the experience of the various attempts at monetary union in the late nineteenth and early twentieth century. This is the lack of central coordination. It is apparent from the history of the Scandinavian Union that in times of stress, there was not an overall coordinating and managing authority capable of acting and resolving more effectively some of the international monetary problems which confronted the Scandinavian countries after the outbreak of war. This would have required some relinquishment of national sovereignty and prerogatives which these nations were as yet unprepared to accept.

This major flaw in the Scandinavian Monetary Union should not prevent an appreciation of the remarkable progress and innovations in international monetary cooperation which were made during the life of the union. It was an important precursor to the attempts at international monetary cooperation which were to come after the Second World War. But even more significantly,

³⁹ JANSSEN, *Les Conventions Monétaires*, p. 143.

the Scandinavian Union provided a clear example of the possibilities of regional monetary cooperation and integration — a practical half-way house between international monetary anarchy and the more elaborate ideal schemes for a universal monetary order.

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