Coins of the Realm

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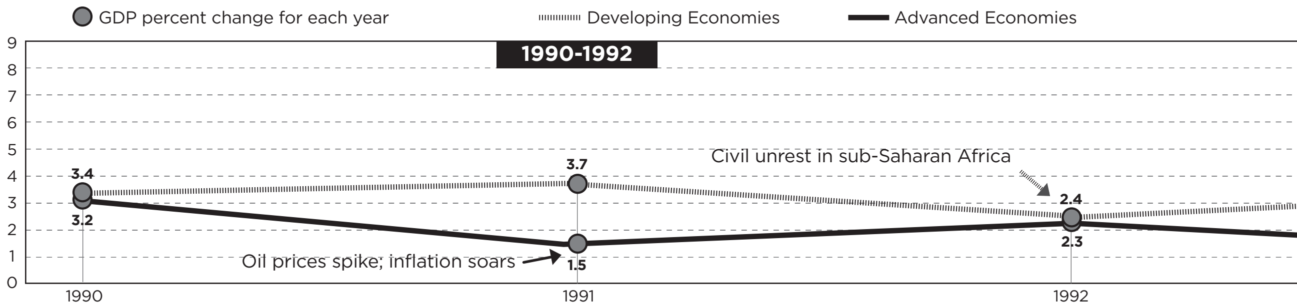
OXFORD, England—We live in a globalized world where financial developments in one region can have an impact on a vastly different and geographically disparate location. The forces joining them are those of money, wealth, and finance, which are deeply interlinked, or so we tend to think. But the world around us has always been globalized, albeit to different degrees and involving different shades of financial undercurrents. An interesting prism to see this continual globalization is through the role itinerant and global currencies and monetary unions have played.

Money is often defined as "as any object (or record of that object) which is regularly used to make payments according to a law which guarantees its value and ensures its acceptability." Acceptance is thus at the core of any particular object being used as money. The spread of monetary traditions across regions happens because people from diverse locations accept particular monies, in the form of coins, paper, or other instruments, to make payments. The fact that coins can circulate as monetary objects greatly enhances their utility. They enable money to be spent and saved by facilitating their division.

However, laws that govern their utility as a medium of exchange are equally significant. It follows that currencies issued by authorities strong enough to ensure trustworthiness, circulate more readily and can spread wherever the authority can enforce

TRACKING THE WORLD'S ECONOMIC HEARTBEAT: 1990-2014



the appropriate laws. In the ancient world, the first truly global currencies emerged with the first "Empires" soon after the invention of coins in the 7th century B.C.

Persians, Greeks, and Romans issued currencies of extraordinary uniformity in their heydays. They came to be trusted and were received widely across the world, wherever trade took them. In many modern languages, Greek and Roman terms like drachma, denarius, and follis survive to mean coin or money, bearing testimony to the role these coins played in the financial history of the regions where the languages developed.

Currencies can spread by trade, conquest, or a little of both. In the Islamic world, monetary reforms instituted by Caliph Abd al-Malik remained the backbone of monetary systems wherever his conquests took place. Coinage even became a sovereign right of the Caliph—the acknowledgment of him or his deputy became an integral feature of Islamic coin design.

By far the best-known global currency of our times is the dollar. American greenbacks circulate in many regions of the world, underpinning various economic functions for a host of reasons. The success of the U.S. dollar is not without its antecedents. From the 14th century, silver began to be mined in the German-speaking parts of Central Europe. The preferred currency medium until then had been gold, following the Roman-Byzantine tradition. But gold was an import into Europe, and changing political and economic conditions meant that its supply could not be trusted. The discovery of silver thus came as a boon. Large silver coins, thalers, were struck in values equivalent to gold units named guldiners or ducats—all forerunners of the dollar.

DALERS ACROSS EUROPE

Soon their use spread across Europe, with local equivalents, such as dalers, daalders, and talleros, being minted from Scandinavia to Spain. A steady supply of silver from sources in Central Europe helped establish the thaler currency. It brought immense prosperity to the regions and formed the economic backbone of many a political and social upheaval in 15th- and 16th-century Europe.

In the Age of Discovery, Spain became the master of much of the New World, or the Americas. With this came control over vast quantities of silver—mines with reserves of the precious metal that would last for centuries. Silver began to flow from the Americas into Europe. Like any other commodity, oversupply would have resulted in lowering the price of silver. But the mercantile advances made by Europeans meant it could be effectively diverted and distributed to other parts of the world, to buy luxury items like silk or spices from India or China, where silver was in great demand. With this

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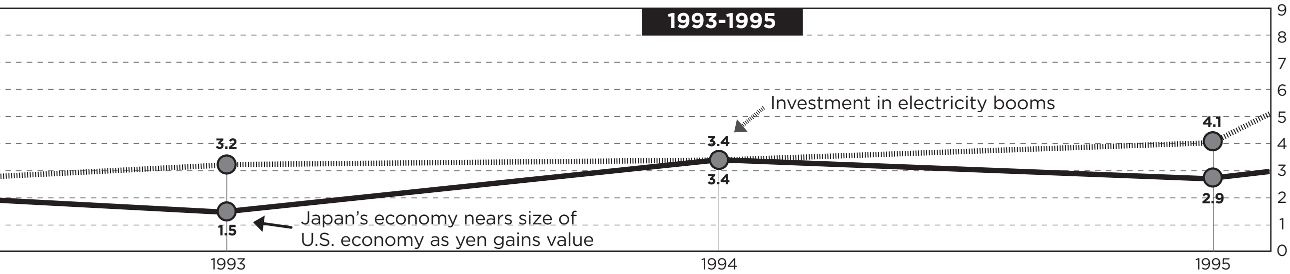


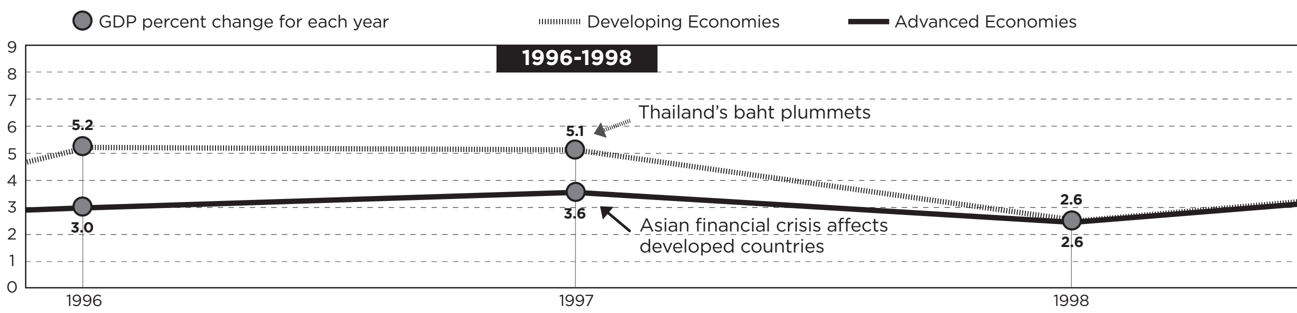
trade, the Spanish silver dollar, also known as a "piece of eight," or *real a ocho*, became a truly global currency. These trade links ultimately led to European domination of the world during the age of colonialism and conquest. The control over silver also allowed this dominance to be achieved.

The silver flows helped the monetization of economies across the known world. With a steady and reliable supply of silver, currencies dependent on it could be sustained and used more widely in transactions, resulting in a net increase in use of coined money. The reliance of tradesmen on particular currencies led to the emergence of circulatory zones, where only specific currencies circulated. The Indian rupee, which relied on the steady supply of silver from the New World via European merchantmen, was efficiently regulated by the strong apparatus of the 17th century Mughal Empire. It therefore emerged as the principle global currency of the maritime Indian Ocean World, because tradesmen could trust its purity and weight and rely on its acceptance. The Indian rupee became legal tender in much of the Persian Gulf, the Red Sea region, and along the East African coast down to Natal, South Africa.

After the 17th century, the character of most European currencies had become national, but because the true value of a coin rested inherently on its metallic contents, coins circulated in regions far beyond their point of issue, provided there was a demand for them. A curious case is the Maria Theresa dollar. This coin, first struck in the mid-18th century by the Austrian Habsburg queen Maria Theresa, had become a mainstay of trade in the Red Sea regions of the Arabian Peninsula, Somalia, and Ethiopia, largely because of its popularity among Arab and other tribal tradesmen. However, its supply was finite, and since it was greatly valued, it attracted a tidy premium in these regions. Knowing there was a profit to be made in its supply, enterprising parties like the Frenchman Antonin Besse and the British Royal Mint struck millions of Maria Theresa dollars in the 20th century and supplied them to the Red Sea region with the British protectorate of Aden as a major node in the chain. As the official striking of the coin had long ceased in Austria with the collapse of the Habsburg Empire at the end of World War I, an argument against forgery was made, but it continued to be produced until 1961, over the protest of the government of the successor republic of Austria.

TOWARD A MORE PERFECT UNION

Even in the age of national currencies, the convenience of using a single currency in trade and taxation sometimes overtook strong national sentiments. Trade and tradesmen's preferences for certain coins led to the creation of informal monetary unions. In the Indian Ocean region, the zone of influence of the Indian rupee ultimately led to a monetary union, formalized in the 19th century when the regions which participated



in it were brought under British sovereignty or protection. Changing economic situations in the 20th century, such as the discovery of resources like oil in the regions which used the Indian rupee, resulted in the dissolution of this monetary union.

In more contemporary terms, the euro is an excellent example of a monetary union where nationalism has been overridden by economic compulsion and political rhetoric. But apart from the euro, there exist other monetary unions in the world today, and many more are being proposed—each with its own distinct political and economic reasons for existence. The former French colonies in West Africa have such a monetary union operating between them, as do the island nations of the East Caribbean Ocean.

The curious situation wherein a single country opts for multiple currencies as its legal tender could well be a corollary to the phenomenon of many countries adopting a single currency. This is primarily precipitated when the national currency of a country erodes in value to such an untrustworthy extent that foreign currencies are needed to replenish it. This situation is evident in Zimbabwe. After rampant inflation (which saw notes up to $100 trillion in face value incirculation), Zimbabwe disbanded its own currency—the Zimbabwe dollar—and introduced in its place a range of foreign currencies as legal tender. These include not only the British pound, the American dollar, and the euro, but also the Chinese yuan, the South African rand, and the Indian rupee.

In a world afflicted with volatile economic conditions, national currencies are often thought to be the root of all evil—allowing countries with economic might to dominate the rest of the world through monetary manipulation. Some radical political economists therefore advocate the abolition of national currencies altogether and advise a move toward a global unifying currency. This, again, is not a new idea. Historically, such uniform currencies have been proposed for entities like the British or French Empires, which covered vast stretches of the globe. With the advent of radical concepts like virtual money, this may even be possible. Bitcoin has already emerged as a currency that dominates the virtual world where there are no political boundaries. However, the day when currencies are no longer in circulation, and the world enters into a currency-free existence, still appears to be a figment of futuristic imagination. ●