Preface

This book provides a detailed history of a form of money that is unique to the modern age: territorially homogeneous and exclusive national currencies. My interest in this history was initially provoked by the challenges to "territorial currencies" in the contemporary age. By exploring the origins of these monetary structures across the world, my initial goal was to contribute to our understanding of contemporary transformations. Once I delved into the history, however, it soon became clear to me that territorial currencies had broader significance. As I show, this study of their origins sheds interesting light on the history of territoriality, national markets, macroeconomic policy, and state and nation building. It also contributes to our understanding of money not just as an economic phenomenon but also as a geographical, political, and sociocultural one.

Conducting the research for this book has been a fascinating experience. It involved not just the use of various libraries and archives, but also visits to many currency museums and coin shops in a number of countries. I am very grateful for the assistance I received from various librarians at the American Numismatic Society, the American Numismatic Association, and the Bank of Canada Currency Museum, as well as archivists at the Bank of England archives, Britain's Public Records Office, the Canadian National Archives, the League of Nations archives, the U.S. Mint archives, and the U.S. National Archives. A number of librarians and museum curators have also provided useful comments and other kinds of support, particularly Michael Bates, Paul Berry, Kevin Clancy, Richard Doty, Virginia Hewitt, Robert Wilson Hoge, James Hughes, Douglas Mudd, and James Zagon. My work was also helped by some very able research assistants: Rob Aitken, Ana Maria Vega Baron, Laura Chrabolowsky, Matt Griem, Derek Hall, Melissa Harnett, Andrea Harrington, Samuel Knafo, Margaret Moore, Sarai Nunez-Ceron, Vince Sica, Gita Sud, and Al Vachon. I am also grateful to the Social Sciences and Humanities Research Council of Canada for providing very useful support.

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We live in an era when conventional ideas about the relationship between countries and currencies are being called into question. Not so long ago, it was seen to be quite natural for each country to maintain its own territorially exclusive and homogeneous currency. Today, however, these "territorial currencies" increasingly are being challenged. In the European Union, most countries have recently replaced territorial currencies with a supranational form of money. In many poorer parts of the world, foreign currencies such as the U.S. dollar are used very widely within countries, and some governments have even adopted the dollar as the national currency. Challenges to territorial currencies also come from below as hundreds of subnational "local currencies" have been created since the early 1980s. In addition, many analysts predict the emergence of a multitude of competing electronic currencies issued by private corporations.

These various developments suggest that there is nothing "natural" about the existence of territorial currencies. In many regions of the world, money is already being organized in quite different ways. If territorial currencies face an uncertain future, what do we know of their past? When and why were territorial currencies created in the first place? Have territorial currencies faced challenges in the past similar to those they face today? In what ways might the history of territorial currencies help us to understand current developments?

To date, these historical questions have not received as much attention as one might expect in scholarly literature. Most economists and political economists analyzing contemporary monetary transformations have not tried to place these developments in a longer historical context. The territorialization of currencies is also remarkably understudied in the large literature on the history of territoriality and state building. Although historians of money provide answers to our questions for specific countries, they have not produced a more systematic history of territorial currencies.

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2 As David Woodruff (1999, xiii) recently put it, "Despite its centrality to economic state building, monetary consolidation has provoked virtually nothing in the way of studies."
As I show, the history of territorial currencies is important for three reasons. To begin with, it highlights that current monetary transformations are less novel than they appear. Because territorial currencies are commonly seen today as a traditional way of organizing money, challenges to them are frequently portrayed as a very dramatic development in long historical terms. I show that a close examination of the history of territorial currencies reveals how misleading this view can be. Territorial currencies are a modern creation, emerging for the first time in the nineteenth century and becoming a standard monetary structure in most countries only during the twentieth century. Moreover, even in this short life, territorial currencies were never as dominant or willingly accepted as conventional wisdom suggests. They were constantly contested in the various ways that we are witnessing in the current period.

Second, historical perspective encourages us to examine the relationship between political space and the organization of money in a much broader way. Economists overwhelmingly dominate scholarship on this relationship today. A study of the history of territorial currencies reveals how limiting a narrowly economic approach is. As I demonstrate, the construction of territorial currencies was an intensely political process involving domestic and international struggles over issues such as the nature of state building, the construction of national identities, the proper scale of markets, and the implementation of competing macroeconomic ideologies. It also was linked to deeper structural trends in the technology of money and changing state forms. This history suggests that a much broader and more interdisciplinary approach is required to explain the geography of money, both in the past and today.

Third, this study of the origins of territorial currencies also provides useful insights into some of the specific causes of challenges to territorial currencies in the current period. This is partly because some of the causes are very similar to those that have produced challenges in the past. In these cases, I show how a close examination of the past is directly useful in interpreting the present. At the same time, I argue that other causes of challenges to territorial currencies today have few parallels in the past. In these instances, historical perspective helps us to identify what is unique about monetary transformations in the current era.

**How Dramatic Are Current Monetary Transformations?**

Let us examine first the argument about the long historical significance of current monetary transformations. As noted above, challenges to territorial currencies are portrayed frequently as a very dramatic development in the long sweep of history. This portrayal has been most common in international relations scholarship where threats to the territorial state—in-
cluding challenges to territorial currencies—are frequently said to be ushering in a new “post-Westphalian” world order. This phrase refers to the 1648 Peace of Westphalia in Europe, a moment that many scholars think marked the origins of the modern territorial state. It suggests that a dramatic transformation in world politics is underway of a kind that has not been seen in three hundred years.

If that is the intended meaning of the phrase, the history of territorial currencies does not support the case. Challenges to territorial currencies undermine a monetary structure that has been in existence for a much shorter time period than the “Westphalian” image infers. Before the nineteenth century, monetary structures in all parts of the world, including Europe, diverged from the territorial model in three ways: foreign currencies frequently circulated alongside domestic currencies, low-denomination forms of money were not well integrated into the official monetary system, and the official domestically issued currency was far from homogenous and standardized. Only in the nineteenth century did each of these features begin to be overcome in ways that allowed territorial currencies to emerge. In the decades leading up to 1914, the construction of territorial currencies was largely completed within some Western European countries, the United States, and Japan. Not until the interwar period, however, did most other independent countries in Europe, Asia, and Americas finish building homogeneous and exclusive territorial currencies. And for a few countries in Latin America and the Middle East as well as all African and Asian countries that had been colonized for much of the twentieth century, territorial currencies were not built until the early years after World War II.

Challenges to territorial currencies, thus, undermine a monetary structure that has not been in existence for long. Indeed, a number of these challenges simply re-create monetary conditions that were considered normal in many parts of the world well into the twentieth century. If this provides one reason not to overstate the long historical significance of current monetary transformation, the second reason is that territorial currencies remained contested throughout the nineteenth and twentieth centuries. Indeed, each of the challenges to territorial currencies today has important precedents during the past two centuries.

Before World War I, two challenges to the territorial currencies were particularly prominent. First, many European countries that had consoli-

3 See, for example, Ruggie (1993), Rosenau (1989), Strange (1995).

4 Some scholars who refer to territorial currencies as “Westphalian” money, such as Cohen, make it clear that they are aware of the nineteenth-century origins of this monetary structure as well as of its contested status throughout the nineteenth and twentieth centuries. Cohen uses the term in a more symbolic manner. See especially Cohen (1998, 173 fn.12).
dated other aspects of their monetary system along territorial lines chose
to participate in regional "monetary unions" that endorsed the co-circula-
tion of each other's coins. There was even considerable political support in
the late 1860s for a worldwide monetary union, although such a union did
not ultimately materialize. "Free bankers," whose liberal views were very
similar to those of contemporary advocates of privately issued corporate
electronic currencies, also challenged territorial currencies in the pre-1914
period. Arguing that the use of multiple privately issued bank notes was
more compatible with liberal economic values, they encouraged govern-
ments to reject a single homogenous national bank note within their terri-
tories. Their recommendations found support among many groups, in-
cluding private banks that did not want to abandon their note issue and
regionalist groups who opposed the growth of the central government's
power. In countries where these groups were politically powerful or where
the structure and experience of private banking seemed to bolster the case
for free banking, a homogeneous national paper note was often rejected.

In the interwar period, political support for currency unions and free
banking collapsed, but two other challenges to territorial currencies
emerged prominently. Some countries that had already consolidated territ-
orial currencies found their monetary sovereignty undermined during
periods of high inflation by a sudden growth of foreign currency use (or
"currency substitution"). Just as is the case in many poorer countries ex-
periencing "dollarization" today, their citizens lost trust in the national
currency in these circumstances and sought refuge in the use of a more
stable foreign currency. During the early 1930s, many countries around
the world also experienced a sudden proliferation of subnational local
currencies quite similar to those that have emerged in the current era. Al-
though the phenomenon was short-lived, it involved many more people
than are involved in local currency schemes today.

Between the late nineteenth and mid twentieth centuries, a further
challenge to the hegemony of territorial currencies came from the mone-
tary practices of imperial powers in their colonies. Imperial powers made
enormous efforts to replace precolonial heterogeneous currencies with
more homogeneous ones, but these reforms cannot be described as "terri-
torializing." This was not just because they created homogeneous curren-
cies in regions that were parts of empires rather than independent states.
It was also because they often created large "monetary unions" that joined
different colonial administrative units together. After World War II, most
newly independent countries threw off their colonial monetary structures
and ended these monetary unions. But even at this moment, some coun-
tries rejected the territorial model and retained monetary unions that had
been constructed in the colonial period.
Each of the types of challenges to territorial currencies today was, thus, experienced at various times during the nineteenth and twentieth centuries: monetary unions, currency substitution, "local currencies," and competing privately issued corporate currencies. Many of these specific challenges were in fact more severe in the past. There is, for example, no serious talk today of a world monetary union as there was in the 1860s. The existence of competing privately issued corporate currencies within countries remains only a pipe dream today rather than the reality it was in many countries before 1914. Many more people in the early 1930s used local currencies than use them today.

Am I suggesting, then, that today's developments represent nothing new at all? No. Because they involve the full replacement of national currencies with a supranational currency, the kinds of monetary unions being proposed and implemented today are more ambitious in some ways than their pre-1914 predecessors. Although contemporary local currencies involve fewer people, their advocates see them as a permanent challenge to territorial currencies rather than simply as a temporary emergency measure, as was generally the case in the early 1930s. The use of foreign currencies is also much more extensive and long lasting today than any such use in the interwar period. I do believe, however, that a historical perspective encourages us not to overstate the significance of current trends. 

What Explains the Geography of Money?

The history of territorial currencies also encourages us to examine the relationship between political space and currency space in a different way than most contemporary analysts do. Economists dominate current academic debates on the future of territorial currencies. The theory on which they most commonly draw is the "theory of optimum currency areas." This theory develops a sophisticated method for policymakers to evaluate the economic implications of creating a currency union within a given region. While assuming a union will produce microeconomic benefits in the form of lower transaction costs for cross-border commerce, the theory focuses its analytical attention on the potential costs involved in the loss of macroeconomic flexibility for each country. The costs are taken to be obvious: abandoning a territorial currency will mean the inability to pursue an

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5 My argument is similar to that of other international relations scholars who have also recently reexamined the history of territoriality in other sectors to highlight its recent origins and contested nature. See especially Krasner (1993, 1999) and Thompson (1994).

6 The pioneering work in this theoretical tradition came from Mundell (1961).
independent national monetary policy or to use the exchange rate as a tool of macroeconomic adjustment. To evaluate how significant these costs are in each regional context, the theory examines criteria such as the nature of external shocks, the extent of factor mobility and wage and price flexibility, and the openness, size, and diversification of economies. If these criteria suggest that the costs are low, the region is said to approximate more closely an "optimum currency area" (OCA) that should be encouraged to create a monetary union.

Despite the prominence of this theory in analyses of current monetary transformations, it has limitations as a tool for explaining monetary geography. In the European context, many scholars have noted that the decision to create a common currency had little to do with the kinds of calculations outlined in OCA theory. Instead, political considerations appear to be more significant. The theory is also not very useful in explaining other challenges to territorial currencies today, such as dollarization, the growth of local currencies, and the new interest in free banking. At a more profound level, Charles Goodhart has observed that countries themselves are rarely optimum currency areas despite the fact that most of them have created territorial currencies over the past two centuries. He concludes, as have others, that OCA theory has "relatively little predictive power."

These criticisms are in some ways unfair. The pioneer of the theory, Robert Mundell, made it clear in his initial writings that he did not intend the theory to be used to explain or predict monetary developments. He assumed that political considerations would play the central role in determining currency structures. The theory was simply advanced to provide economic advice to policymakers in contexts where political conditions made monetary change possible. The theory, in other words, was intended to be more normative than explanatory. Despite this caveat, the link between normative prescription and empirical explanation often appears blurred in recent writing in this tradition, and the theory remains the most influential way of analyzing the geography of money in economics.

If we seek to explain the spatial organization of money, it would be useful to have an alternative way of thinking about the determinants of the geography of money. I suggest that an examination of the reasons why

10 My book builds on Cohen's (1998) pioneering analysis, which examined the geography of money in a more interdisciplinary manner. His book concentrates more on the implications of challenges to territorial currencies in the contemporary period, while my goal is to develop an explanation of the geography of money in the context of the history of territorial currencies.
Introduction

Territorial currencies were created historically can be useful in identifying some of the key determinants. I begin by showing that the construction of territorial currencies was linked partly to two deep structural changes, one political and the other technological. With respect to the former, I develop a point that has been noted briefly by some historians: the emergence of the nation-state in the nineteenth century acted as a key precondition for the creation of territorial currencies. Many of the activities associated with the construction of territorial currencies relied on the nation-state's unprecedented capability to influence and directly regulate the money in use within the territory it governed. This capability stemmed from such features as its policing powers, its more pervasive role in the domestic economy, its centralized authority, and its stronger ability to cultivate the "trust" of the domestic population.

Territorial currencies could not be created, furthermore, without a technological transformation that has received less scholarly attention: the application of new industrial technologies to the production of coins and notes in the nineteenth century. This development dramatically and rapidly improved the uniformity of the money in circulation by enabling the production of standardized currency in mass quantities. For the first time, public authorities also found it possible and affordable to produce large quantities of high-quality, low-denomination coins that were linked in a stable fashion to the rest of the official monetary system. Equally important, the high quality of the new industrially produced money made counterfeiting a much more difficult proposition, a development that in turn strengthened the ability of state authorities to maintain stable national "fiduciary" forms of money on a mass scale. This latter development was of enormous significance in enabling states to create and maintain territorial currencies.

If new industrial technologies and the rise of the nation-state enabled territorial currencies to be created, why did state policymakers actively choose to create such currencies in these new conditions? Policymakers had not previously pursued this project with the kind of seriousness and consistency that began to appear in the nineteenth and twentieth centuries. The decision to create territorial currencies emerged in this era out of concrete political projects, and the authors of these projects grasped that this new monetary structure could serve goals that were broader than those identified in OCA theory. We can identify four sets of motivations that reappeared in many different country and historical contexts. My argument is not that these four sets of motivations provide an exhaustive list of the motivations that drove policymakers to territorialize money, nor that they were present in each country and each reform. Instead, I argue simply that they encompass the most prominent reasons why territorial
currencies were created in many different countries in the nineteenth and twentieth centuries.\footnote{Specialist readers will note that in his analysis of the reasons why states may prefer territorial currencies in the modern age, Cohen (1998) also highlights four motivations, but his list is slightly different from mine. He does not mention the concern for transaction costs, and he adds another motivation that I do not include: the fact that this monetary structure can insulate the state from external coercion. There were a few instances where this latter concern did play a role in prompting policymakers to create territorial currencies, such as the cases of Guinea and Mali in the early 1960s that I describe in chapter 9 (see also Kirshner 1995, ch.4). Because I have been unable to find many more cases, however, I have not included this concern among the most important motivations for creating territorial currencies. The desire to exercise control over foreign countries also acted as a motivation for creating currency unions, as I examine in the case of France within the LMU in the nineteenth century, and Kirshner (1995, 60–62) notes in the case of Japanese monetary reforms in occupied China after 1937.}

The first, and often most important, motivation was the goal of fostering the emergence of national markets by altering transaction costs. Although the theory of OCA argues that currency unions will have the beneficial effect of minimizing transaction costs, the link between monetary reforms and transaction costs has received almost no analytical attention among economists working in that theoretical tradition. They have assumed this benefit and focused their attention on the macroeconomic roles of money.\footnote{An important recent exception is Andrew Rose (2000).} This issue was, however, very prominent politically throughout the nineteenth and twentieth centuries. Policymakers were frequently driven by the desire to eliminate domestic transaction costs encountered by merchants operating in newly emerging nationwide markets where no standardized and exclusive currency existed. The emergence of national markets was not just the kind of spatial phenomenon that OCA theorists have in mind. It was also a "vertical" one in which the poor began to become incorporated within the larger market economy for the first time. In this context, creators of territorial currencies hoped to eliminate the transaction costs associated with the use of low-denomination money that was both heterogeneous and had an uncertain link to the official monetary systems.

The task of creating national markets involved bolstering not just the internal economic coherence of a country but also the economy's external territoriality by making a clear distinction between the domestic and international economy. Following World War II, some policymakers created territorial currencies with this latter goal in mind. They hoped a new territorial currency would increase international transaction costs by creating an exchange rate risk between the national and international economy as well as by strengthening the ability of the state to enforce controls on
cross-border flows of money. These goals, designed to foster a more distinct and autonomous national economy, point to a further limitation of OCA theory as an explanatory theory. It assumes that policymakers see expanding intercountry commerce as desirable, while in fact this goal was highly contested in this period. Interestingly, this motivation was much less prominent in the nineteenth century and the 1920s when policymakers were more inclined to see their efforts to construct national markets as going hand-in-hand with the goal of strengthening economic links with the outside world. Indeed some key territorializing monetary reforms in many poorer countries during the late nineteenth and early twentieth centuries were driven by a desire to facilitate commerce with wealthier regions by adopting more “modern” territorial currencies that resembled those already established in these prosperous regions.

The desire to control the domestic money supply for macroeconomic purposes was the second motivation that drove territorializing monetary reforms. On the surface, this would appear to be a motivation that OCA theory anticipates well. In fact, the kind of macroeconomic theorizing represented in OCA theory was absent from policymakers’ minds for much of the historical period in which territorial currencies were created. In the nineteenth and early twentieth centuries, policymakers inspired by classical economic liberalism often created note monopolies because of their desire to manage their country’s growing supply of paper money in keeping with the automatic market-based principles of the gold standard. In these instances, the motivation for this “territorializing” monetary reform was the opposite of that predicted by OCA theory; policymakers hoped a more consolidated national monetary structure would allow them to guarantee that discretionary management of the domestic money supply and exchange rate did not happen. Their conception of macroeconomic management, thus, was extremely limited and sought simply to manage the domestic money supply in a way that simulated the automatic macroeconomic adjustment mechanisms of the gold standard.

In some countries—particularly less economically powerful ones—during this same time period, a second group of liberal policymakers had slightly more ambitious and nationalist macroeconomic objectives. These “liberal nationalists,” as I call them, were also committed to the gold standard, but they hoped a central bank with a note monopoly could protect the country to some degree from the automatic macroeconomic adjustments of this standard. Rather than adjust a national exchange rate as OCA theory envisages, they had in mind more limited policy tools for this purpose such as foreign exchange market intervention. They also hoped a central bank with a note monopoly might strengthen the state’s ability to intervene in the domestic economy. Again, the goal was not the ambitious
one imagined in OCA of pursuing an activist domestic monetary policy. Instead, the objective was to use central banks to perform tasks such as reducing the monetary influence of foreign-owned banks, allocating credit to domestic firms, and fostering the growth of a money-based economy and domestic financial markets.

Only in the wake of the Great Depression did the macroeconomic rationale for territorial currencies become the ambitious one that is analyzed in OCA theory. Where territorial currencies did not yet exist, policymakers now often created them, inspired by what I call an ideology of "macroeconomic activism." In some instances, territorial currencies were created to allow a country to use exchange rate adjustments as a macroeconomic policy tool. More often, policymakers built territorial currencies so that the national money supply could be managed more effectively in a discretionary fashion to promote domestic goals of national full employment and industrial growth. Even in this period, however, the "macroeconomic activist" rationale for territorial currencies was politically contested, and many policymakers rejected it for a variety of reasons.

The third set of motivations driving policymakers to create territorial currencies related to the fiscal needs of the state. This motivation is absent from OCA theory, but it has received attention in other scholarship within economics and other disciplines. Some scholars have argued that territorial currencies were created primarily to maximize seigniorage gains and help finance the expanding fiscal needs of the state, particularly in the context of the emergence of mass warfare. 13 Whereas OCA theory assumes the primary goal of policymakers will be to maximize national economic welfare, these scholars emphasize the importance of state-building objectives. My historical analysis confirms that this fiscal motivation did play a key role in prompting some monetary reforms that created territorial currencies in the nineteenth and twentieth centuries. But I argue that its importance is easily overstated. This is partly because of the role of the other motivations I highlight. But it is also because the focus on seigniorage neglects another important way in which fiscal concerns drove monetary reforms. Policymakers were often less concerned with maximizing seigniorage than with reducing transaction costs associated with the administration of complex, modern public fiscal systems that were created for the first time in the nineteenth and twentieth centuries. The desire to reduce domestic transaction costs, in other words, reflected not just the goal of fostering national markets but also the objective of enabling new nationwide taxation, public accounting, and spending systems to operate efficiently in this period.

13 See references in chapter 4.
Finally, territorial currencies were also often constructed to strengthen national identities. Although economists sometimes acknowledge the importance of the link between territorial currencies and national identities, the issue rarely plays any significant role in their analysis of the geography of money. Interestingly, the relationship between territorial currencies and national identities has also received almost no attention from scholars of nationalism or within new literature on the sociocultural dimensions of money. This issue, however, motivated nationalist policymakers throughout the nineteenth and twentieth centuries. They saw the construction of territorial currencies as fostering national identities in several ways. At the level of iconography and naming, policymakers recognized that exclusive and standardized coins and notes might provide an effective vehicle for their project of constructing and bolstering a sense of collective tradition and memory. By reducing transaction costs within the nation, a territorial currency was also seen to facilitate "communication" among citizens. Because trust plays such a large role in the use and acceptance of modern forms of money, it was thought that territorial currencies might encourage identification with the nation-state at a deeper psychological level. And finally, territorial currencies were increasingly associated with national sovereignty both in a symbolic sense and because they could be used to serve the national community as tools for activist national macroeconomic management.

To sum up, territorial currencies were created historically not because policymakers made a rational and carefully considered judgment one day that their country had become an "optimum currency area." Indeed, this point should be obvious from the fact that most countries are not optimum currency areas. Instead, the construction of territorial currencies was a much more complicated affair. Many of the key determinants of the rise of territorial currencies receive no attention in the theory. These include the role of structural changes in the technology of money and state authority as well as the fact that policymakers saw the geography of money linked to broader political objectives of nation and state building. This history also highlights the fact that macroeconomic flexibility is not always as highly valued as the theory suggests and that the link between transaction costs and monetary reform is much more important and contested than most scholars working in the OCA tradition have acknowledged. Equally apparent is the limitation of OCA theory's assumption that changing monetary geography is best evaluated according to its impact on national aggregate economic welfare. The creation of territorial currencies was an intensely political affair that often became the subject of intense domestic and international struggles because of its distributional consequences and because of conflicting ideas about the various goals.
outlined above. An explanatory theory of monetary geography must acknowledge and analyze how this kind of political conflict shapes monetary policymaking in this area.\textsuperscript{14}

\textbf{Can History Help to Explain Challenges to Territorial Currencies Today?}

This historical analysis should be directly useful for those interested in examining the causes of contemporary challenges to territorial currencies. Existing scholarship offers many explanations for each specific challenge to territorial currencies. What has been missing, however, is a more general analysis explaining why territorial currencies are being challenged in so many different ways today. The history of territorial currencies suggests that such an analysis should not use OCA theory as its starting point. Instead, it highlights that the changing spatial organization of money may be determined by transformations in technological and state structures as well as by political projects in which money is seen to serve more than just the functions addressed by OCA theorists. Building from this premise, I give particular attention to whether territorial currencies are being challenged today by similar causes to those that prompted their contestation at various points over the past two centuries.

I show how some challenges to territorial currencies are being encouraged by a structural transformation in the technology of money that is unique to our era: the emergence of new forms of "electronic money." Transformations in state structures are also playing a role in encouraging monetary transformations, although they are less novel to our age. Currency unions, for example, are being fostered by intensifying patterns of interstate cooperation, just as has been true in the past. Many poorer countries are also experiencing growing currency substitution for the same reason some countries did in the interwar period: the state’s ability to influence and directly regulate the money in use within its territory has eroded in contexts of economic and political instability. What is somewhat new, however, in the current era is the extent of this erosion. Whereas states in the interwar period were able to reverse foreign currency use by restoring their authority, the more pervasive weakening of the power of nation-states in many poorer countries today has caused them to experience much longer-lasting currency substitution than was true in that earlier period. In these contexts, as Cohen has pointed out, the geography of money becomes increasingly determined by market forces rather than the choices of state officials.\textsuperscript{15}

\textsuperscript{14} For this point more generally, see Kirshner (2000).
\textsuperscript{15} Cohen (1998).
In addition to these structural developments, I argue that challenges to territorial currencies today also reflect some disillusionment with the various motivations that drove policymakers to create territorial currencies in the first place. Whereas territorial currencies were viewed as a tool to help construct national markets, today they are often seen as interfering with political projects aimed at furthering international economic integration. This perspective is not entirely new: it also encouraged currency unions to be created in various contexts during the nineteenth and twentieth centuries. But a more prominent goal today is the desire to eliminate exchange rate instability in the current environment of very high capital mobility. There are two other unique developments in the current era that relate to this motivation. One is the interest in free banking as a means to reduce transaction costs in one of the most rapidly growing sectors of the global economy: e-commerce. The other is the fact that supporters of local currencies, instead of embracing the project of international economic integration, are deeply opposed to it. As I show, local currencies are designed deliberately to increase transaction costs in order to defend economic localism in the face of globalization pressures, a goal that was not shared by creators of local currencies in the interwar period.

Disillusionment with the kind of national “macroeconomic activism” that had become prominent after the 1930s has also prompted many policymakers to support alternatives to territorial currencies. This disillusionment has stemmed partly from the resurgence of economic liberal ideology in macroeconomic affairs over the past two decades. We have seen how in the pre-1931 period economic liberals distrusted the ability of national governments to pursue discretionary national monetary management. In that era, however, only free bankers extended this distrust to a desire to reject territorial currencies altogether. In light of the experiences with national macroeconomic activism since the 1930s, more liberals today—though not all by any means—are inclined to adopt this stance and endorse either free banking, currency unions, or currency substitution as tools that can help to discipline national governments.16

Others have become disillusioned with national macroeconomic activism for different reasons. The growing power of global financial markets has led many to conclude that national macroeconomic activism, while perhaps still theoretically desirable, is no longer practical. This stance has encouraged some policymakers to be less resistant to the idea

16 Interestingly, many of these liberals have called attention to the ideological assumption embedded in OCA theory that macroeconomic flexibility is a good thing and argue that the macroeconomic costs involved in abandoning a territorial currency are much less than those predicted by the theory (Tavlas 1993).
of abandoning territorial currencies in favor of monetary unions or dollarization. Many supporters of local currencies also view these forms of money as tools to address macroeconomic goals that they believe national governments are no longer capable of serving. In this respect, contemporary local currency advocates are similar to their counterparts in the 1930s, who were responding to the fact that national governments were doing little to help them in the desperate economic conditions of the Great Depression.

In the past, challenges to territorial currencies also reflected some fiscal goals. Some nineteenth-century economic liberals saw free banking as a way to ensure that states did not abuse the national monetary system for their own fiscal purposes. With the revival of liberal economic ideology today, it is not surprising to see this motivation reemerge as rationale to support not just free banking but also currency unions and dollarization. This motivation is not a very prominent one, though, because the relative significance of territorial currencies for public revenue has diminished since the nineteenth century. In the past, another fiscal rationale for rejecting territorial currencies was put forward by colonial policymakers: they favored large colonial monetary unions as a means of reducing intra-empire fiscal transaction costs for the public sector. Today, there are few parallels to this rationale, with the partial exception of the concern of European policymakers about the impact of European exchange rate instability on the operations of EU-wide fiscal arrangements, most notably the Common Agricultural Policy.

Finally, are alternatives to territorial currencies being supported as a means of fostering new forms of political identities? In the past, they sometimes were. Some policymakers saw the introduction of colonial currencies as a tool to transform the identities of colonized peoples in ways that served imperial goals. Many nineteenth-century liberal advocates of currency unions also hoped that this monetary system would allow nationalist identities to be replaced by more cosmopolitan sentiments. The latter motivation is certainly present in Europe where the euro is often supported as a tool to foster closer European political union. In a different way, the "greens" who promote local currencies also hope their monetary reform will undermine national identities, although this time by fostering localist allegiances. In other contexts, however, advocates of monetary reform are going out of their way to argue that national identities will not be threatened by the abandonment of territorial currencies. This phenomenon, I suggest, may in fact mark an interesting political initiative to question the historical link between national identities and territorial currencies that has existed since the nineteenth century.

In sum, I argue that the history of territorial currencies provides some
useful insights for those trying to explain the widespread challenges to territorial currencies today. It does not, of course, help us to develop a comprehensive explanation of each challenge; but it does identify some key factors that have influenced the determinants of monetary geography in the past and continue to do so today. More specifically, this history suggests that some of the causes of challenges to territorial currencies in the past remain important today. At the same time, it reveals other causes of challenges to territorial currencies today that have few parallels in the past and illuminates the unique nature of some dimensions of contemporary monetary transformations.

Conclusion
This book is divided into two major sections. Part 1 explores the birth of territorial currencies in the nineteenth and early twentieth centuries. The exact nature of transformations that first produced territorial currencies in that era is described in chapter 1. The importance of the two preconditions for the birth of territorial currency, the presence of nation-states and industrial technology, are outlined in chapter 2. In chapters 3–5, the four principal motivations that drove policymakers to create territorial currencies in the nineteenth and early twentieth centuries are explained: the desire to construct national markets (chapter 3), the various macroeconomic and fiscal goals (chapter 4), and the objective of strengthening national identities (chapter 5).

The spread of territorial currencies in the twentieth century to most regions of the world and the contested nature of territorial currencies throughout the nineteenth and twentieth centuries are examined in part 2 of this book. Chapter 6 analyzes the two most prominent principled challenges to territorial currencies before World War I: the free banking movement and supporters of monetary unions. Chapter 7 explores the spread of territorial currencies in the interwar period as well as the challenges presented to them by the growth of foreign currency use and local currencies in some countries. In chapter 8, the monetary practices of colonial powers are studied. This is followed by an analysis in chapter 9 of the last wave of territorializing monetary reforms: those that took place in many Southern countries during the years after World War II. The concluding chapter of the book draws on this history to examine the causes of challenges to territorial currencies in the current age.

One final caution for the reader is necessary before launching into the book. This book examines the history of territorial currencies in countries across the world over the last two centuries. It cannot, however, pretend to provide a comprehensive history of the monetary experiences of every country over the time period. I inevitably give greater emphasis to the his-
tory of some countries over others. In some cases, these choices are well justified by the relative significance of each country's monetary history to the point being made. In others, however, it has simply reflected my knowledge or ability to access country-specific research sources. In the latter cases, I hope this book helps prompt future researchers to address holes I have not been able to fill and to demonstrate how their research supports or challenges my arguments.
Part 1

The Birth of Territorial Currencies in the Nineteenth Century
The Initial Transformation
From Monetary Heterogeneity to Territorial Currencies

How was money organized before the emergence of territorial currencies? When and how were territorial currencies first created? These questions have not been well addressed in existing literature. Even international relations scholars, who recently have shown growing interest in the historical origins of territoriality, have neglected them. This neglect is unfortunate because the monetary case calls into question a conventional view about the origins of territoriality. Territoriality is often presented as having had its roots in seventeenth-century Europe, around the time of the birth of the sovereign state at the 1648 Peace of Westphalia. But it was not until the nineteenth century that territorial currencies were first created. Before then, currency systems throughout the world departed from the territorial model in three ways: foreign currencies often circulated alongside domestic currencies, low denomination forms of money were not well integrated into the official monetary system, and official domestically issued currency itself was far from homogeneous. Territorial currencies emerged only when public authorities began deliberately to transform each of these three features of monetary system in the nineteenth century.

Money before Territorial Currencies
Is there really no sign of the origins of territorial currencies to be found in seventeenth-century Europe, as conventional international relations scholars would predict? It is true that important European theorists of state sovereignty in the early modern era such as Jean Bodin did argue that sovereigns must become the sole issuers of currency within the territories they each governed. But the novelty and importance of Bodin’s views should not be overstated. In other parts of the world before the sev-

1 Bodin (1992, 59, 78–79).
enteenth century, the exclusive authority to issue currency within a given territory was often seen as a sovereign privilege. More important, Bodin’s advice did not lead any European ruler—or any ruler elsewhere—actually to create a territorial currency in the seventeenth century. Not until the nineteenth century was Bodin’s vision realized.

Before explaining how pre-nineteenth-century monetary systems departed from the territorial model, it is important to clarify the meaning of “money”—a term that I use interchangeably with “currency” in this book. Money is a notoriously difficult term to define precisely. Economists usually define money according to the functions it performs. Three are cited most frequently: a medium of exchange, a store of value, and a unit of account. Scholars from other disciplines have found this approach limiting. While modern money usually performs all three of these roles, historical forms of money have sometimes assumed only one or two of these functions. Money’s functions are also often not just economic but also political (e.g., an instrument of power), social (e.g., facilitating various social relationships), and cultural (e.g., transmitting or reflecting cultural values).

Rather than define money solely according to what it does, a second approach also defines money according to what it is, and has been, in concrete historical settings. This is what the historian Richard von Glahn calls a “typological” definition alongside the more “functional” one used by economists. Following the French monetary historian Pierre Vilar, we can identify three important types of money that have been used in human societies historically. The most common has been “commodity money,” which refers to an object whose monetary value is similar to the value of the material from which it is made. Various commodities have been used as money in this way, particularly those that are portable, indestructible, homogeneous, and divisible such as cowry shells or precious metals, especially silver and gold. Before the nineteenth century, commodity monies were key elements in the monetary systems of most societies around the world. Indeed, as we shall see, their diminishing role was closely connected with the emergence of territorial currencies.

A second type of money is “nominal money,” which refers to an abstract “money of account” and indicates a value that has no correspondence to a physical currency in circulation. This type of money performs only one of three economic functions cited above: a unit of account. Its use

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2 See China (von Glahn 1996, 1, 23–33) or Mughal India (Thakur 1972, 139–40; Mitra 1991, 19).
3 Gilbert and Helleiner, eds. (1999).
has often become extensive in contexts where the value of other forms of money is changing rapidly and unpredictably, or where other forms of money are not homogeneous and standardized. Many monetary systems before the nineteenth century fit these criteria and thus nominal monies played a much more pervasive role in monetary systems in the past than they have during the last two centuries.

The third key type of money is "fiduciary money," which is money accepted to have a certain value unrelated to the value of the material from which it is made. It is sometimes said to be a modern invention, but fiduciary money was also common throughout much of human history in the form of various kinds of paper notes, "book money," and low-denomination coins made out of base metals such as copper or brass. During the nineteenth and twentieth centuries, the use of fiduciary money did dramatically expand in all countries as coins assumed this nature, and as paper notes and various forms of "book money" (especially bank deposits) took a central place in monetary systems. Today, fiduciary forms of money have come to dominate monetary systems around the world.

The Widespread Use of Foreign Currencies
These typological distinctions are useful in explaining how monetary systems around the world before the nineteenth century were organized. These monetary systems differed from territorial currencies in three principal ways. First, foreign currencies were commonly used alongside domestically issued currencies. In Europe, Fernand Braudel notes how "a mixture of foreign and domestic currencies was the rule" before the nineteenth century, despite the fact that Bodin had disapproved of the practice.6 In many instances, this practice was even endorsed by European states, which set a rate at which foreign coins should be accepted vis-à-vis domestic coins. The European experience was quite typical of other regions during this period. In the United States, foreign silver coins—primarily Mexican and Spanish currency—formed the bulk of the domestic coinage up until the 1850s.7 An enormous variety of foreign coins also played a key role in Canada's monetary system until 1870.8 Across Latin America, foreign coins also were used widely well into the nineteenth century.9 In East Asia, foreign coins circulated widely alongside domestically issued money into the nineteenth century, even within relatively

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6 Braudel (1990, 601). See also Cipolla (1956, 14). For Bodin's disapproval, see Monroe (1923, 64).
7 Carothers (1930, ch.11).
8 Helleiner (1999a).
9 Hamilton (1944).
closed economies such as Tokugawa Japan. Foreign currency was also in common use across the Middle East and the Ottoman Empire where their rating by local authorities even varied from place to place.

Although their use was common across the world before the nineteenth century, foreign currencies were not accepted for widespread circulation by all states within the territories they governed. An important case was the Mughal Empire between the mid sixteenth and early eighteenth centuries in India. Like Bodin, the Mughal emperors saw the issuing of coin as their sovereign prerogative, and they made great efforts to keep foreign currencies from circulating within the regions they governed. Historians argue that they were in fact fairly successful in forcing merchants and foreigners to convert foreign coins into imperial coins at the borders of the empire, even placing mints in every frontier town for this purpose. But this determined effort and the relative success of this highly centralized and absolutist empire was exceptional before the nineteenth century.

One of the key reasons foreign currency circulated so widely in domestic monetary systems before the nineteenth century was the pervasive nature of “commodity money.” Because its face value derived simply from its commodity value, this kind of money was inherently quite cosmopolitan. The stable coins of leading economic powers in particular often circulated very widely. In the early modern period, the most famous of these was the Spanish “dollar.” Produced primarily at Spain’s colonial mints in Mexico and Peru, this coin circulated widely in monetary systems throughout the Americas and Asia in the seventeenth, eighteenth, and well into the nineteenth centuries. “Commodity monies” other than coins also circulated in cosmopolitan ways before the nineteenth century. Uncoined gold, silver, and copper were forms of money that circulated across the world. Equally important were cowries. Issued—or more accurately “harvested”—exclusively in the Maldive Islands before the mid nineteenth century, cowries were transported around the world, often as ballast in ships, and used as currency in many parts of the world before the nineteenth century (including in the Mughal Empire, as noted below).

Although commodity monies were the most common form of “cosmopolitan” currency, some other types of money were also used widely beyond their home countries before the nineteenth century. Between the eleventh and fifteenth centuries, the Chinese state was the first to use issue...
paper notes on a large scale and these notes circulated widely as a medium for international trade throughout the Indian Ocean as well as East and Central Asia. Some "bank monies" created in leading European commercial cities, especially Amsterdam, in the early modern era also were used widely beyond their country of origin. Amsterdam's bank money was issued by a public bank as a way of coping with the presence of so many different foreign coins that were attracted to the city in its trading heyday. The Bank of Amsterdam accepted large deposits from merchants in any coin, which were credited to their account in a unit of "bank money" that was equivalent to that coin's value in unminted metal. Large-scale trade in the city was then largely conducted via credits and debits to merchants' accounts at the bank that were denominated in this bank money. Because of their stability and wide use, Einaudi notes that this bank money—and that of other public banks in cities such as Genoa and Venice—was then often used as currency "in traffic all over Europe."

Distinctive Low-Denomination Money: "Tiered Monetary Systems"

Pre-nineteenth-century monetary systems also diverged from the territorial model because low-denomination money was linked in only a loose and uncertain way to the official currency. Low-denomination monetary instruments in many parts of the world consisted of "fiduciary" coins made of copper, bronze, or other base metals. These coins were often issued by local merchants or towns and were not easily convertible into officially sanctioned higher-denomination metallic coins both because of their uncertain value and because their circulation was often limited to small geographical areas. Before the nineteenth century, states made few concerted efforts to ban these "local currencies" and initiatives to replace them with government-issued petty coin were only partial. Moreover, when petty coins were issued by state authorities, they were usually poorly made and their value had no clear relationship to silver and gold coins. The authorities who produced these petty coins rarely tried to control their supply and, as noted in chapter 3, they often did not even consider them to represent "real" money.

These features of low-denomination coins were very common in Europe before the nineteenth century. They have been particularly well documented in the case of England where low-denomination private token coins made of copper, tin, and lead had been issued by merchants and towns since the thirteenth century. By the early 1600s, approximately

15 Einaudi (1953, 252).
three thousand London businesses issued unauthorized farthing token coins, which often circulated no farther than several city blocks. State authorities made occasional, half-hearted efforts in the seventeenth and early eighteenth centuries to produce low-denomination copper coins for the first time, but they did not consider these coins to be real money and widespread counterfeiting of the coins was hardly ever prosecuted during the eighteenth century. The production of privately issued tokens in England then grew so rapidly in the final decades of the eighteenth century that the Royal Mint reported in 1787 that only 8 percent of the copper coins in circulation resembled the king's coin. Production of private tokens by towns and merchants extended even to include small-denomination silver money during the Napoleonic wars when Britain's inconvertible currency produced an enormous shortage of official silver coins. 16

Unofficial privately issued, low-denomination forms of money made of copper, lead, wood, leather, and even soap were also widespread in the Americas during the colonial period and early independence years. In colonial Mexico, for example, one report in 1766 notes that at least two thousand shopkeepers in Mexico City were issuing their own tokens made of base metals. The "tlacos" circulated widely in the city, but were not always acceptable with other merchants. During the nineteenth century, the Mexican state made periodic efforts to produce low-denomination copper coins, but more widely used were tokens issued by merchants, hacienda owners, mining companies, and even some municipalities. 17 Elsewhere in Latin America, the United States, and Canada, frequent shortages of official low-denomination coins also encouraged cities and merchants to issue private tokens well into the nineteenth century (see figure 1). 18

Even in the sophisticated monetary order of Mughal India, low-denomination money was not well integrated with the rest of the official currency. In contrast to European authorities at the time, the Mughal emperors did in fact produce an enormous number of copper coins. But unlike the silver and gold coins they produced, the value of these copper coins was not uniform across the empire. It varied according to the cost of transportation from copper mines in the north, and the coins' value also was not fixed vis-à-vis silver and gold coins. Moreover, many low-denomination transactions in Mughal India were conducted in other commodities, such as almonds and especially cowries. Their value was also quite vari-

17 Pradeau (1958), Hamilton (1944, 36–38).
able (it was usually higher in regions far from the coast), and their exchange rate vis-à-vis higher-denomination money was not standardized within the empire.  

Cowries were widely used for low-denomination money not just in the Mughal Empire but in many other regions around the world before the nineteenth century such as China, Southeast Asia, Africa, the Pacific Islands, and part of the Americas (see figure 2). Hogendorn and Johnson

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point out that cowries were in fact one of the best commodities to be used for low-denomination transactions in the preindustrial age. Their value was much lower than any metallic coin, allowing them to serve important monetary needs in preindustrial contexts where incomes were very low. Cowries were also much more durable than preindustrial, low-denomination metallic coins; they were very hard to break and showed few signs of wear over decades of use. Equally important, the shells were much more difficult to counterfeit than coins, and their size and quality was uniform. Despite all these benefits of cowries, societies that used them experienced the same difficulties that the Mughal Empire had. The value of cowries usually fluctuated from place to place, according to transportation costs and local custom. Their value was also often difficult to link in a stable manner to that of official higher-denomination money.20

Monetary systems around the world before the nineteenth century thus were characterized by the lack of stable connection between the value of low-denomination money and that of high-denomination money. With a fluctuating or unclear exchange rate between these two types of money, a tiered monetary order was created rather than a coherent territorial one. Indeed, a number of monetary historians have highlighted how

this tiered monetary order corresponded with the different spheres of economic life that the poor and rich primarily inhabited in the preindustrial era. In the European context, Cipolla notes how “in a stratified society different classes use different types of money.”21 Similarly, Habib notes how low-denomination money such as copper coin in the Mughal Empire was “the currency of the masses” that served popular needs in localized economic contexts, while higher-denomination gold and silver coins were used primarily by the wealthy and served the needs of large enterprises and long-distance trade.22

Heterogeneous Official Domestically Issued Currency
Domestic monetary systems differed from the territorial model before the nineteenth century in a third way: even the officially sanctioned domestically issued money of each country was not standardized. In regions of the world where state authority was very weak, the distinction between official and unofficial forms of money was hard to draw. In many parts of precolonial Africa, for example, Hogendorn notes how monetary systems were dominated by “informal” currencies put into circulation by private producers and merchants, as opposed to “formal” currencies issued or sanctioned by states.23 These included cowries as well as commodities such as the copper rods (“manillas”) that were used widely in West Africa. Their value varied from region to region and changed according to trade conditions and the availability of imports of the commodity.

In other regions where states took a larger role in declaring what money was officially sanctioned, official domestically issued money was rarely homogeneous. To begin with, domestically issued silver or gold coins in circulation were rarely of uniform quality. There were exceptions: the consistency of the purity and standard of the Mughal Empire’s coins was very high. But in most countries, this was not the case. Not only were old and worn coins left in circulation without being regularly withdrawn, but the product of official mints within the country also varied considerably from mint to mint, from year to year, and even within a single coining session. In addition, it was not uncommon for the value of the same official coins to vary considerably region to region, or even from town to town, as in nineteenth-century Iran and the Ottoman Empire.24

In many regions of the world, multiple official coinage standards and

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21 Cipolla (1956, 56).
24 For Iran, see Jones (1986, 44), Minai (1961, 164). For Ottoman Empire, see Frangakis-Syrett (1997, 265), Himadeh (1953).
systems also persisted within each country. This was particularly true of regions where central state authority was weak. In Tokugawa Japan, the central government’s coinage circulated alongside coins issued by various lords according to various different standards. Indeed, at the time of the Meiji Restoration in 1868, the coinage had become quite chaotic, with approximately sixty different kinds of coins in circulation (including foreign coins).\(^{25}\) In medieval Europe, many local lords and even religious leaders had also issued coins according to various standards. As European states acquired more centralized power in the early modern era, these coining rights were gradually withdrawn, although this process often took a long time. In the tiny German duchy of Oldenberg, for example, four independent coinage systems coexisted as late as 1810.\(^{26}\) Even in the centralized Mughal monetary order, distinct coinages often persisted in parts of the empire.\(^{27}\)

The Chinese monetary system presented a particularly dramatic example of multiple monetary standards and systems. When the central state lost its ability to maintain a uniform monetary standard and currency during the Ming (1368–1643) and Qing (1644–1911) dynasties, various kinds of privately issued coin, circulating at different rates, began to appear across the empire. Rounded silver bars (“sycees”) increasingly became a dominant medium of exchange (see figure 3). Produced by private mints, their size and weight varied enormously across the country, between distinct commercial centers, and even within each center. Beginning in the late nineteenth century, governments at various levels—central, provincial, and local—also started to issue coins (and sometimes notes) in an unstandardized way. The result was a very heterogeneous monetary order—what Perlin refers to as “multimedia payments order”—that lasted up until the 1930s.\(^{28}\)

In countries where paper money was used, it often contributed to the lack of uniformity in official monetary systems. Across Europe, many institutions—including different levels of government and a multitude of private banks—began to issue paper notes in the eighteenth and nineteenth centuries, and the denominations and appearance of these different forms of paper money often varied considerably. So too did their “quality” and thus the degree of their acceptance across the economic space of each country. Unstandardized paper money also became increasingly

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\(^{25}\) Spalding (1918), Shinjo (1962).

\(^{26}\) Heckscher (1955, 123). For medieval Europe, see Spufford (1988).

\(^{27}\) Habib (1961).

common in Tokugawa Japan. By the end of the Tokugawa era, there were in fact as many as 1,694 different kinds of paper notes in circulation issued by various local lords.\textsuperscript{29} An even more dramatic example of a heterogeneous paper note circulation existed in the United States during the first half of the nineteenth century. Just before the Civil War, as many as ten thousand different types of paper notes circulated in that country and merchants were forced to consult frequent newsletters that detailed the exchange rates between them.\textsuperscript{30}

\textsuperscript{29} Takaki (1903, 31), Maruyama (1999).

\textsuperscript{30} Davis (1910).
Compounding the lack of uniformity in the quality of coins and notes was the large-scale counterfeiting of both forms of money before the nineteenth century. No country was insulated from this problem, even those with relatively powerful centralized states such as Britain where notes and coins were widely forged until the early nineteenth century.\textsuperscript{31} Counterfeiting was particularly widespread where the monetary system was already very heterogeneous. At the start of the Civil War, as many as 50 percent of U.S. bank notes in circulation are estimated to have been counterfeit.\textsuperscript{32} As explained in the next chapter, this problem was not addressed effectively until the new industrial manufacturing techniques were applied to the production of coins and notes in the nineteenth century.

One further important way in which the homogeneity of official domestic monetary systems was undermined was the absence of a stable relationship between the value of the various kind of currencies in use. In regions where paper money was widely used, its value vis-à-vis coins was not always stable. As the first country to use paper money widely, China was the first to experience this difficulty because the convertibility of its notes into metallic coin was often suspended. The result of these suspensions was the same as that which occurred later in other countries; an inconvertible currency usually prompted a sudden disappearance of high-quality coins from domestic circulation, as “bad money” drove out “good” in keeping with Gresham’s Law.\textsuperscript{33} Before the nineteenth century, the more pressing difficulty in most parts of the world was coping with the fluctuating relationship between official silver and gold coins. Under coinage systems made up of these “commodity monies,” fluctuations in the market value of gold and silver or changes in the official value of gold or silver coins would often cause enormous disruption to the domestic monetary system. These fluctuations not only disrupted domestic accounting practices, they also frequently caused the sudden disappearance of one or the other coin from domestic circulation when the market prices strayed too far from the official mint price.

To cope with the lack of uniformity in domestic monetary systems (made worse by the presence of foreign currencies and various low-denomination monies), many states introduced abstract units of account

\begin{itemize}
  \item \textsuperscript{31} Mackenzie (1953, 13, 48–58), Craig (1953, 253–54).
  \item \textsuperscript{32} Johnson (1995).
  \item \textsuperscript{33} von Glahn (1996). During one brief period from 1260 until the late 1270s, stable paper notes were used very extensively as the only legal means of exchange; the use of all coins was banned in trade, and paper notes were issued for very low denominations. By the late 1270s, however, confidence in the notes had collapsed.
\end{itemize}
with which people could value the various forms of money in circulation. These "nominal monies"—sometimes called "ghost" monies or "imaginary" monies—were designed to simplify economic transactions by providing a single accounting unit within each country's territory. But some felt that they only further contributed to the monetary heterogeneity by creating yet another monetary instrument that had to be used. Moreover, in some European countries, two nominal monies coexisted, one based on a higher-denomination coin and the other based on a lower-denomination coin. In the Ottoman Empire throughout the nineteenth century, different unofficial nominal monies were also used in different regions, cities, and even within the same city. The same was true of China up until the 1930s.

**How Territorial Currencies Were Constructed**

Only in the nineteenth century did territorially uniform and exclusive national currencies begin to emerge for the first time in world history. The construction of territorial currencies was accomplished only when state authorities addressed each of the three heterogeneous features of pre-nineteenth-century monetary systems just outlined. There was, in other words, nothing particularly "natural" about this monetary transformation. Instead, as Viviana Zelizer notes, it resulted from the "painstaking and deliberate activities of public authorities." Territorial currencies were created at quite different speeds in different countries, and it was a gradual process in most countries, spread out over a number of decades. By 1914, some Western European countries, the United States, and Japan had largely completed the process. A number of other countries in Europe, Latin America, and the British Dominions (as well as colonized regions of Africa and Asia that will not be discussed until chapter 6) undertook many key reforms in this period, but they would not create a fully fledged territorial currency until the interwar years or later (as is described in chapters 7 and 9).

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34 This was, for example, the view of policymakers at the time of the French Revolution who abolished nominal monies in the country (Einaudi 1953).
35 For example, Sweden in the seventeenth century (Heckscher and Rasmusson 1964, 34) or Denmark in the eighteenth century (Hansen 1983, 368) or Italian states in earlier centuries (Helfferich 1969 [1927], 41–42; Cipolla 1956, 49).
37 Perlin (1994a, 135–46).
38 Zelizer (1994, 205). When territorial currencies were created, Zelizer highlights that the homogeneous nature of the new national monetary system should not be overstated since money continued to be differentiated at the micro level through practices such as the earmarking of currency.
Standardizing Official Domestically issued Currency

Let me begin with the ways in which governments addressed the heterogeneity of official domestically issued currency. One of the most important activities of state authorities in this respect was to produce high-quality, uniform, and difficult-to-counterfeit coins and notes in mass quantities for the first time. As is described in the next chapter, this was made possible only because of the application of new industrial equipment to the production of coins and notes. In the next chapter, I also examine how state officials reinforced the effects of this technological revolution by launching much more concerted efforts to stamp out all counterfeit money. The poor quality of coins and notes in circulation was also addressed by new initiatives to remove old, worn money on a regularized basis.

A second important activity involved the elimination of subnational monetary standards and coinages in countries where they existed. Some of the most dramatic reforms in this respect came in the second half of the nineteenth century in countries where political changes created new centralized states. In Japan, for example, the leaders of the Meiji Restoration in 1868 made the creation of a single monetary standard and coinage one of their top economic priorities after assuming power. In Latin America, Marichal shows that unified monetary standards often emerged in the 1880s and 1890s when states in that region had finally begun to consolidate power in a more centralized and cohesive way. Similar homogenizing monetary reforms took place in the various new countries that emerged out of political unification initiatives in this period. The new federal government created in Switzerland in 1848, for example, moved within two years to substitute a new uniform monetary standard and coin for various currencies of the cantons. Shortly after political unification of Italy, the new central government replaced the diverse coinages and standards of the various regions of Italy with a single uniform one. After creating their new country in 1867, Canadian politicians moved quickly to abolish the distinct monetary standard that the province of Nova Scotia had previously used. In Germany, too, political unification in 1871 was followed quickly by the consolidation of a single monetary standard and coinage.

A third key activity was the creation of large-scale, state-managed “fi-
The Initial Transformation

As I have noted, fiduciary coins had existed before in history; low-denomination coins, in particular, usually had a value above their commodity value. But this value had rarely been stable because their supply had not been closely managed by the state and their convertibility into other forms of official money had not been guaranteed. In the nineteenth century, many countries transformed official higher-denomination coins into well-managed fiduciary coins whose official monetary value was guaranteed at a stable rate well above their metallic value. By 1914, these fiduciary coins dominated the coinage in many countries, and the old “full weight” gold and silver coins that had been so prominent had often disappeared entirely from circulation. 44

This transformation in coinage was extremely important in reducing domestic monetary heterogeneity in every country where it took place. This was partly because the value of all coins now existed in a fixed relationship to each other over time. This change, in turn, reduced the need for abstract nominal monies, a development that was frequently encouraged by public authorities who adopted units of account that corresponded directly to real coins in circulation. 45 The supply of official coins in circulation was also now stabilized because there was much less risk that a large portion of the coinage would disappear when the market value of gold and silver altered. 46 Finally, states now had a strong incentive to eliminate unofficial money from domestic circulation because the management of a stable fiduciary coinage required the state to control the domestic coin supply more closely.

Britain pioneered the creation of a large-scale fiduciary coinage system when it adopted the gold standard in 1816, and it was the first country to experience these effects. To ensure that silver coins maintained a fixed value with respect to the new gold standard, the British government produced new fiduciary silver coins, and it assumed the role of stabilizing their value by controlling their supply and guaranteeing their convertibility into gold. 47 Britain’s pioneering effort in creating a state-managed modern fiduciary coinage system was soon followed by other countries, with the same results in their domestic monetary systems. Marc Flan-

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44 For a good discussion of the creation of modern fiduciary coinages, see Cipolla (1956, ch.3). Some countries that had this modern coinage system still retained large numbers of “full weight” gold coins in circulation. See footnote 71.
45 For the British case, see Craig (1953, 285).
46 The risk of a disappearance of the coinage was not eliminated altogether, however, especially in places where the value of silver coins had not been diminished very much lower than their intrinsic value. When countries experienced a dramatic depreciation of their paper money, there could also still be a massive disappearance of coins, as noted later. 47 See Redish (1990).
dreaeu correctly notes that countries did not need to adopt the gold standard in order to create a modern state-managed fiduciary silver coinage, as Britain had. In practice, however, the adoption of the gold standard—or often a gold-exchange standard—was usually the moment when this kind of coinage was introduced for the first time. This was true for the United States (which created a fiduciary silver coinage in 1853) as well as many European countries such as Portugal (1854), Switzerland (1860), Italy (1862), France (1864), Belgium (1865), Germany (1873), and Austria-Hungary (1892). Almost all Latin American and Asian countries lacked state-managed fiduciary silver coinages until they adopted gold-exchange standards in the late nineteenth and early twentieth centuries. By the start of World War I, only a few independent countries, such as China, Ethiopia, the Ottoman Empire, and some countries in the Middle East and Latin America, did not yet have large-scale, state-managed fiduciary coinages.

Another kind of fiduciary money whose use grew rapidly during the nineteenth century, paper money, also required standardization. Some states, such as Norway (1816) and Denmark (1818), had in fact given a note issue monopoly to a single bank very early on in the nineteenth century. In most countries, however, the initial growth in the use of paper money led to a situation of considerable heterogeneity with multiple issuers, which states then addressed. As noted above, Japan and the United States presented quite extreme cases of note heterogeneity by the mid nineteenth century. In Japan, the new Meiji government began the process of note consolidation in the early 1870s. It moved quickly to replace the enormous number of notes issued by local lords with notes issued by the central government and by newly chartered banks. Then in 1882, a new central bank was created that issued notes three years later, notes that gradually assumed a monopoly position by 1905. In the United States, the federal government finally took a decisive step to reduce the heterogeneity of U.S. notes in 1863 by pressuring all note-issuing banks to become “national banks” that issued a single standardized note. Although

\[48\] Flandreau (1996).

\[49\] See Conant (1969 [1927]). In many of these instances, countries initially remained formally on bimetalllic standards by leaving the mint open to the free coinage of certain silver coins. When gold-silver ratios changed dramatically, however, they usually removed this option.

\[50\] See Rosenberg (1985). One exception was Puerto Rico in which the Spanish had created national fiduciary coin in 1895.

\[51\] For detailed histories of the standardization of note issues in the pre-1914 period, see Smith (1990), Goodhart (1988), Conant (1969 [1927]).

\[52\] Lindgren (1997).

\[53\] Takaki (1903), Boling (1988).
government-issued greenbacks as well as silver and gold certificates remained in circulation, the new national bank notes became the dominant note in circulation, and because their value was guaranteed across the whole country, they were rightly called by observers at the time a "national currency." In 1913, they began to be replaced by a new national note issued by the newly created Federal Reserve System, and these notes had become the exclusive note in circulation by the 1930s.\(^\text{54}\)

In other countries, the note standardization process was less dramatic, but still significant. Some countries, such as Switzerland (1881), homogenized the note issue in the way that the United States had begun to do in 1863; they standardized the appearance and quality of the notes while permitting various private banks to continue to issue them. Others transferred the note issue from many competing private banks to a single central bank. The most famous example was England where the 1844 Bank Act gradually phased out the notes of various small "country" banks that had been issuing notes since the mid eighteenth century and promised the Bank of England a note monopoly. Some other examples included Belgium (1850), Portugal (1891), Germany (1875), Sweden (1897), Argentina (1890), Nicaragua (1911), Uruguay (1896), and Bolivia (1914). In other cases, such as Australia (1910) and Brazil (1898), the state itself took over the task of issuing notes from the private banks. Still other countries had initially granted banks a note monopoly in subnational zones or cities; in these instances, the creation of a single nationwide note involved replacing these subnational monopolies with a national one, as in Spain (1874) and France (1848).

In most of these instances, policymakers tried to keep their new standardized notes convertible into the national monetary standard, be it silver or gold. But when convertibility was suspended unexpectedly, considerable domestic monetary upheaval often resulted as good quality coins quickly disappeared. The creation of fiduciary coinages helped reduce this risk, but it did not eliminate it altogether since fiduciary silver or copper coins often still had considerable valuable metallic content in them. During the U.S. Civil War, for example, the dramatic depreciation of the paper currency prompted a massive disappearance of coins, as people began to hoard them, melt them down for their metallic content, and export them.

Not all independent countries created standardized note issues in the pre-1914 era. Countries such as China, Canada, New Zealand, South Africa, Italy, and many countries in Latin America did not make this move. In Ireland and Scotland, too, various private banks issued their own distinctive notes even after the decision was made to create a note

\(^{54}\) Davis (1910) and De Kock (1939).
The Making of National Money

monopoly in England in 1844, despite the fact that the coinage of these two regions had been assimilated with that of England for some time (in 1707 for Scotland and 1826 for Ireland).\textsuperscript{55} Some countries that granted note monopolies to private banks also did not end up with a note of standardized value across the country. In the Ottoman Empire, for example, the Imperial Ottoman Bank was given a note monopoly in 1863, but its notes did not circulate at par throughout the empire because they could only be redeemed at its head office in Constantinople.\textsuperscript{56} Similarly, in Iran, the notes of the Imperial Bank of Persia, established as the sole bank of issue in 1889, were only acceptable at the specific branch where they were issued. Given the difficulties of transportation and communication in the country, and the fact that the value of coins fluctuated between towns, the result was that several different subnational monetary zones existed in practice.\textsuperscript{57}

Another kind of fiduciary money—bank deposits—also became an increasingly important part of the money supply in many countries during the nineteenth century. Interestingly, most governments showed much more interest in regulating bank notes and coins than this form of money. Despite this lack of attention, bank deposits emerged within the territorial currency framework in countries that were consolidating this monetary structure; that is, private banks denominated deposits in the new standardized national currency. The convertibility of bank deposits into other forms of national money—much like that of privately issued notes—was of course dependent on the stability of the specific bank where they were held. During the last third of the century, central banks took an increasingly active role in defending the stability of private banks through lender-of-last-resort activities, although some questioned the necessity and desirability of these activities.\textsuperscript{58} Monetary authorities also often facilitated the smooth transferability of bank deposits across the country by encouraging national networks of banks to be created and by establishing nationwide payments and clearing systems when private banks themselves had not already created them.

\textit{Integrating Low-denomination Money and Removing Foreign Currencies}

The creation of territorial currencies also involved the integration of low-denomination money within the newly standardized official monetary order and the removal of foreign currencies from domestic circulation. As

\textsuperscript{55} Scottish copper coin remained in circulation for much of 1700s, however (Stewart 1971, 252).

\textsuperscript{56} Himadeh (1953, 28).

\textsuperscript{57} Jones (1986, 44).

\textsuperscript{58} See, for example, Goodhart, Capie, and Schnadt (1994, 15).
noted in more detail in the next chapter, an important part of the former task involved the production of large quantities of high-quality, standardized “petty coins” whose value was fixed in a clear relationship to other official forms of money for the first time. Once these coins had been produced, public authorities also made more serious efforts to ban privately issued, low-denomination “local currencies.”

Britain was the first country to make these moves. After ignoring the reform of low-denomination copper coins for most of the eighteenth century, the Royal Mint began using new industrial minting machinery to mass-produce high quality and homogeneous copper coins in 1821. These new coins quickly pushed out of circulation the various private tokens and counterfeits that had dominated low-denomination coinage. At the same time, the government’s view of private tokens suddenly changed. During the eighteenth century, there had been no law against the issue of tokens that did not resemble official coin. Once the Mint was equipped to produce mass quantities of new copper coins, however, the government moved to outlaw the issue and circulation of these private tokens.59

Many countries around the world soon followed the British example. As Carothers and others have noted, the history of low-denomination coinage is less well documented than other aspects of monetary history.60 But some examples of the spread of the introduction of industrial minting of low-denomination coins are outlined in the next chapter. A few examples can be cited here of how countries also moved to ban privately issued, low-denomination coin. In the United States, private low-denomination tokens had been widely used in the first half of the nineteenth century, but they were banned in 1862.61 Private tokens also had been particularly widespread in mid-nineteenth-century Australia, but they were banned in 1860 as soon as adequate quantities of industrially produced British low-denomination bronze coin began to be imported.62 Similarly, in Mexico, the government banned private tokens in 1889 after they had grown very rapidly in use over the previous decade, but the ban was not strictly enforced until 1905 when the government began for the first time to produce low-denomination copper and nickel coins in mass quantities.63

59 Their issue and circulation were banned by an 1812 act of Parliament, but the act was not implemented until the mint’s new coins were introduced (Craig 1953; House of Commons 1817).

60 Carothers (1930).

61 Bernard (1917). In a fascinating article, however, Timberlake (1987) notes how privately issued scrip was still used in quite widespread ways in more isolated mining and lumbering company towns in the United States, particularly in Appalachia, in the early decades of the twentieth century.


63 Pradeau (1958).
The removal of foreign currencies from domestic circulation was also a key task in the building of territorial currencies. Sometimes, foreign currencies disappeared from domestic circulation simply as a by-product of the initiatives just outlined. With the new standardization of coins and notes in circulation, it became more difficult for a foreign currency with different denominations and quality to enter the domestic circulation and be accepted. As money increasingly assumed a fiduciary form, it was also less likely to be accepted abroad. The value of fiduciary coins, for example, no longer depended on their intrinsic metallic value but instead on some knowledge of the trustworthiness of the government that issued them as well as the prospect that the holder could redeem these coins into gold or silver with that government. Foreign coin had also often been used to supplement an inadequate supply of domestically issued small denomination coinage. Once this supply was provided in a more stable manner with new fiduciary coinages, demand for foreign currencies dropped off. In the United States, for example, the introduction of an adequate supply of fiduciary silver coins in 1853 ended the circulation of foreign coins in major cities across the country very quickly.

At the same time, public authorities actively pursued the removal of foreign currencies from circulation. Governments often discouraged the use of foreign currencies through the use of legal tender laws and rules about what currencies would be acceptable at public offices. The introduction of a fiduciary coinage often prompted governments to remove existing foreign coins from circulation because of the new need to manage the domestic coinage supply more closely. Andrew describes how the introduction of fiduciary coins around the world in the late nineteenth century led to an ever-decreasing range of circulation for the cosmopolitan Mexican dollar for this reason. Some government initiatives to remove foreign coins were very extensive and time-consuming. One example comes from the United States in the late 1850s. Although foreign coins ceased to circulate in major U.S. cities after 1853, they continued to be common in rural areas. To rid the country of them, the government launched a four-year campaign between 1857 and 1861 in which citizens could exchange foreign coins for new copper coins the government had begun to produce.

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64 See for example Helfferich (1969 [1927], 49).
65 This is not to say that fiduciary money would not be used abroad at all, as we shall see in subsequent chapters.
66 Carothers (1930, ch.11)
67 Andrew (1904).
This effort was very successful—people stood in lines with bags of old Spanish and Mexican coins for the exchange—and when it ended, the legal tender status of foreign coins was finally eliminated. In Canada, too, all foreign silver coins were removed from domestic circulation in a massive operation in 1871 that cost close to $120,000 and involved more than sixty bank agencies and the posting of forty thousand circulars around the country. Similarly, in Peru, a major coinage reform in the early 1860s encouraged the government to launch a three-year operation between 1864 and 1867 designed to remove debased Bolivian coins, which had been the main coin in domestic circulation since the 1830s (although the coins remained in use in southern Peru’s remote altiplano until as late as 1920).

Not all countries that created more standardized currencies welcomed the disappearance of foreign currencies from domestic circulation. In some European countries where the circulation of each other’s silver coins had been common, governments became concerned when their new fiduciary coinages began to disrupt this practice. For reasons analyzed in chapter 6, they then created “monetary unions” that encouraged fiduciary coins of all member countries to continue to circulate in each other’s territories. In countries that had adopted the gold standard, some governments also encouraged the circulation of foreign coins by granting legal tender status to selected foreign gold coins. After becoming an independent country, Canada, for example, made British sovereigns and U.S. “eagle” gold coins legal tender in its 1871 currency act. The practical importance of provisions such as this was usually negligible, however, since few gold coins were in circulation in Canada and most countries that were on the gold standard!

Although these latter provisions highlight how some policymakers saw countries on the gold standard as joined together in a kind of cosmopolitan monetary order, this was a misleading view. While all such countries embraced gold as a common standard, each country adopted different units of account in gold for their national currency. More important, as I have emphasized, the introduction of the gold-based monetary standard was usually the catalyst for countries to create much more consolidated, territorial fiduciary coinage systems for the first time and to exclude foreign coins from domestic circulation. (As we shall see in chapter 4, it also often encouraged government to create note mo-

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68 Carothers (1930, ch.11).
69 Shortt (1986, 559), Weir (1903, 156, 160).
71 For Canada, see Stokes (1939, 2). There were, however, a few exceptions of countries on the gold standard where substantial numbers of gold coins remained in circulation such as Portugal (Reis 2000), Germany, and Britain (e.g., Gesell 1934, 34).
nopolies.) Ironically, it was countries that were not on the gold standard in the late nineteenth and early twentieth centuries—such as China, Ethiopia, and some countries in the Middle East and Central America—where foreign coins continued to circulate most freely. The gold standard’s cosmopolitan reputation was, thus, not very well deserved. Instead, it is better seen as the world’s first “inter-national” monetary order because it joined together countries that had begun to consolidate territorial currencies for the first time in history.72

**Conclusion**

Territorial currencies are, thus, quite a recent historical phenomenon dating back only to the nineteenth century. As we have seen, money was organized in different ways before that time. Foreign currencies circulated widely within domestic territories. Low-denomination money was disconnected from the official monetary system. Even the official domestically issued currency was quite heterogeneous. The creation of the first territorial currencies in the nineteenth century involved a transformation of each of these features of traditional monetary systems. As we have seen, the transformation was not a simple one. Instead, it involved extensive activities by political authorities. New efforts were made to produce and maintain good-quality, standardized notes and coins in circulation. Counterfeiting was attacked in a more rigorous manner. Subnational distinctive monetary standards and coinages were eliminated. For the first time, governments also created large-scale, state-managed fiduciary coinages. Note issues were standardized within the territory and nationwide bank networks, and payments and clearing systems were constructed where they did not exist. More serious attention was given to the production of standardized, low-denomination money that was linked to the official monetary system, and unofficial low-denomination, privately issued money was banned. In addition, foreign currencies often had to be physically withdrawn from domestic circulation in expensive and time-consuming operations.

As I mentioned briefly in the introduction, the timing of the construc-

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72 James (2001, 17) also makes this point. In gold standard countries where gold coins did not circulate, their central monetary authorities of course held gold as monetary reserve. But these reserves should not be seen to challenge the territoriality of domestic monetary systems any more than the establishment of foreign embassies challenges territoriality in the realm of political sovereignty. As Ruggie (1993) and others have noted, as soon as territorial spaces have been created, it is necessary to carve out “extraterritorial” realms to facilitate interaction between these spaces. In the monetary realm, the holding of foreign currency reserves by public monetary authorities can be seen as an example of this phenomenon.
The Initial Transformation

tion of territorial currencies is important for recent debates in the field of international relations about the historical origins of territoriality. Specifically, it calls into question the idea that the Westphalian age of seventeenth-century Europe represented a sharp historical break that ushered in new practices of territoriality. Although the principle of monetary "territoriality" may have first been put forward in that age in Europe (although I have questioned even this point in the monetary case), its practical application in a concerted and successful fashion in the monetary realm did not come until the nineteenth century. This conclusion is one increasingly echoed by several other studies beyond the monetary realm as well.\textsuperscript{73}

The argument that international relations scholars have overstated the significance of change in the Westphalian age has important contemporary implications. Many scholars describe challenges to territoriality in the current period—including contemporary monetary transformations—as ushering in a "post-Westphalian" world order. This phrase conjures up an image of a dramatic world order transformation of a kind that has not been seen in three hundred years. If that is its intended meaning,\textsuperscript{74} the conclusions presented in this chapter and other recent scholarship suggest that the phrase is misleading. If territoriality has more recent historical origins, challenges to it today are less dramatic in long historical terms. In the monetary sector, this point needs to be made particularly strongly. For as I will argue in subsequent chapters, territorial currencies were not only constructed recently but they have also faced constant challenges throughout their short lives.

\textsuperscript{73} Krasner (1993, 1999), Thompson (1994).
\textsuperscript{74} See footnote 4 in the introduction.