A SINGLE CURRENCY FOR THE BRITISH EMPIRE: A WARNING FOR THE EURO

Dr Thomas Mohr, School of Law, University College Dublin

Debates concerning the future of the Euro and the recent EU fiscal treaty might seem to be without precedent in Irish and European history. This is not so. Proposals for the creation of currency unions and for dealing with the economic challenges that inevitably follow have been debated for over two millennia. Examples include monetary unions between city states of ancient Greece, the attempts to coordinate the currencies of nineteenth century German states and the Latin Monetary Union that existed in continental Europe between 1866 and 1927.

The United Kingdom, at that time including Ireland, decided to remain aloof from the Latin Monetary Union. The British maintained this policy a century later with respect to the Euro. Nevertheless, there was another proposal for a single currency in the early twentieth century that did have to be considered by the United Kingdom and by the first government of the infant Irish Free State. This was a scheme proposed in 1923 that a single currency be created for the British Empire. The conclusions reached with respect to this proposed Imperial currency union remain relevant with respect to the challenges faced by the Euro currency union today.

Contrary to popular belief the pound sterling was not the single currency of the British Empire. The “Empire on which the sun never set” was actually made up of a patchwork of different currencies, for example the Indian rupee and the British East African shilling. Canada and Newfoundland, which did not become a part of Canada until 1949, had their own dollar currencies.

Economic links with the “mother country” were stronger in Australia, New Zealand and South Africa. These Dominions had their own pound currencies linked to the value of gold at the same level as the pound sterling. The link between these countries and the pound sterling was threatened by the outbreak of the first world war in 1914. The economic strains caused by the conflict forced the United Kingdom to break the link between the pound sterling and the value of gold. Soon the value of the British pound sterling began to fluctuate with respect to the Australian, New Zealand and South African
pounds with predicable inconvenience to Imperial trade. This led to calls for a single currency in order to bring the economies of the global Empire closer together.

The proposal for a single British Empire currency was made in London at the Imperial conference of 1923. This was one of the first international gatherings attended by the fledging Irish Free State. The 1921 Anglo Irish Treaty had given the Free State the same status as the self-governing Dominions of Canada, Australia, New Zealand, South Africa and Newfoundland. Irish attendance at this Imperial conference reflected this reality.

The proposal for a single Imperial currency was the brainchild of the British economist J.F. Darling. His proposal was brought to the table of the Imperial conference by the New Zealand delegation who were supported by their Australian neighbours. The proposed currency union expressly excluded India, the jewel in the Imperial crown. The weak Indian rupee, based on the value of silver, was essential in ensuring its continued economic subservience within the Empire.

Many influential parts of the British Empire were not enthusiastic about the scheme for a single currency. Boer dominated South Africa was firmly opposed to the proposal. Canada and Newfoundland, whose dollar economies were more integrated with that of the United States than the British Empire, made it clear from the outset that they would not join. However, the strongest opposition actually came from the mother country of the Empire. The objections raised by the United Kingdom in 1923 on the creation of a single currency have a definite air of familiarity in the context of the challenges that are currently facing the Euro.

First, the British treasury raised the scenario of what would happen if one of the entities within the Empire defaulted on its debts. It concluded that the result would be international contagion that would turn a local currency crisis into one of global dimensions. The British treasury also pointed out that the economic actors in the Empire were not equal in size. The single currency might survive if one of the smaller Dominions, such as New Zealand or Newfoundland, defaulted on its debts. On the other hand “the default of the United Kingdom, would involve the financial affairs of the Dominions themselves in such confusion that their guarantee [of the single currency] would probably become inoperative”. In other words, a currency union could not withstand a default by one of its larger actors.

The best example of the perspicacity of the British Treasury of the 1920s concerned the reality that a single currency could not work without stronger controls over the various
We do not believe that the scheme will be effective because control of currency cannot operate satisfactorily unless, at the same time, you have control of credit.” Crucially, the British were concerned that the imposition of economic controls would cause political friction within the Empire. They concluded that this would be inevitable because the necessary economic controls would “lead the British Government to examine, and even to criticise, the finances of the Dominions, and this interference would be none the less vexatious because the Dominions would be equally entitled to examine and criticise British finances”.

Sustained criticism from the centre of the Empire ensured that the new Imperial currency never got off the ground. However, the response of one of the participants at the 1923 Imperial conference has not yet been examined. What was the position of the infant Irish Free State with respect to the proposed Imperial currency? The surprising answer is one of apparent indifference. The government did not send a representative from the department of finance to the relevant discussions at the Imperial conference. The Irish delegate who did attend, E.J. Riordan of the department of industry and commerce, admitted to not being able to “contribute anything of value to the discussion”.

This indifference to a scheme of such potential magnitude makes more sense when it is remembered that the Irish government was already committed to a policy of retaining parity with the pound sterling, a stance that was maintained until 1979. Irish banknotes issued in the 1920s even declared that they were “payable to bearer on demand in London”. Successive Irish governments were committed to this currency link notwithstanding questions of maintaining the gold standard and irrespective of membership of a wider Imperial currency. The pooling of a certain amount of economic sovereignty in the interests of maintaining currency links has been a integral feature of most of the history of the Irish state.

Will a degree of political friction, as anticipated by the British treasury in 1923, prove to be an inevitable consequence of the enforcement of the EU fiscal treaty? This remains to be seen. There is always room for dispute in measuring the budget deficits and public debts that must be kept within tight limits. Greater certainty can be attached to the overall conclusion reached in the 1920s that some form of mutually enforceable economic controls are the inevitable price to be paid for the benefits and convenience of a stable currency union. This reality has already been confirmed by recent European and Irish history.
Further Reading

“Sidebars” or “Boxes”
Two possible ‘sidebars” or “boxes” might be included with this article. These are detailed below.

**Box 1: The Latin Monetary Union**

The Latin Monetary Union was founded in 1865 when France, Belgium, Italy, and Switzerland made their coins freely interchangeable. Other European countries joined in the decades that followed although the United Kingdom declined to do so. The members of the Union minted coins of the same dimensions and with the same composition of precious metal. Fluctuations in the values of precious metals placed pressure on this currency union. Some member states also violated their commitments by minting coins with a lesser content of precious metal than was officially required. Greece was expelled from the Union in 1908 for violations of this nature although it was allowed to rejoin in 1910. This precursor to the Euro currency was finally disbanded in 1927.

**Box 2: The Final Break between the Irish Pound and the Pound Sterling, 1979**

In 1978 Ireland joined the European Monetary System while United Kingdom declined to do so. The European Monetary System included the creation of a European Exchange Rate Mechanism which created agreed bands within which currencies would be allowed to fluctuate. By 1979 the pound sterling had appreciated in value against the currencies in the European Exchange Rate Mechanism. This threatened to take the Irish pound, which was still linked at parity with sterling, outside its permissible band. The final break with the currency of the United Kingdom that had been maintained since the foundation of the Irish Free State was now unavoidable.
**Proposed Pictures**

The pictures illustrated below were taken from the internet. Higher quality pictures can be produced if these suggestions are found to be acceptable. Picture 1 is a British Trade Dollar. The image of Britannia could have been used for a British Empire Currency. Picture 2 is an early Irish Free State banknote. A third picture might provide a close-up image of the inscription in the bottom left of this banknote which illustrates the economic links with London that lasted until 1979.

**Picture 1**

![A British Trade Dollar: One of many Currencies used within the British Empire.](image1)

**Picture 2**

![A Banknote of the Irish Free State “Payable to Bearer on Demand in London”.](image2)
Figure 2: Crowned and Uncrowned

George V appears with a crown on this 1935 Australian penny (left) in accordance with colonial practice. He appears bareheaded on this 1935 United Kingdom five shillings (right) in accordance with British practice.

Figure 3: A harp without a crown

An Irish penny of 1928 provides a good example of the harp design that appeared on the first official Irish coins to be minted for over a century. The name of the state appears in the Irish language as “Saorstát Éireann”. The meaning of this name was deliberately ambiguous. Although “Saorstát Éireann” is usually translated into English as meaning “Irish Free State” it could also be translated as “Republic of Ireland”.

Figure 5: The Symbolism of Irish Stamps
The political symbolism of Irish stamps did not escape notice in the United Kingdom. A portrait of the reigning monarch or the appearance of royal symbols such as a crown had been a common feature of British definitive issues since the creation of the “Penny Black” in 1840 as the world’s first postage stamp. By contrast, the first definitive Irish stamps issued in 1922 (left) depicted a map of the entire island of Ireland which was, in itself, a powerful political statement. The absence of the King’s head or royal symbols remained a constant feature of Irish postage stamps issued in the 1920s and 1930s in defiance of the official position of the Irish Free State as a British Dominion and a constitutional monarchy. Compare this to the obvious pride in membership of the British Empire evident in many Canadian stamps (right).

Figure 6 : Percy Metcalfe

Percy Metcalfe first came to public prominence as a result of his designs reproduced on medals struck for the British Empire Exhibition of 1924 (left). The commission to create the designs for the coins of the Irish Free State firmly established his career as one of the leading coin designers of the British Empire. One of his most famous creations was the “rocking horse” crown (five shillings) intended to celebrate George V’s silver jubilee (right).