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Harmony in money – one money for one country

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This paper discusses the German reforms from 1871 to 1876 for 26 States with different monetary traditions. Particular attention is paid to the strategy of compromise that produced harmony, notwithstanding the different traditions, habits and attitudes to money. Almost everybody found something in the new system that was familiar. The reform included three separate legal elements: coinage, government paper money and banknotes, and was carried out in such a way to avoid upsetting the different parties. Under the common roof of the new monetary unit, traditional and regional elements were preserved, *eg* in coin denominations, design, and even in the colours of banknotes. The ideas of compromise were helpful to the mental acceptance of the new money. As money and its tradition are rooted in the habits and feelings of the people, the strategy of creating harmony has to be taken into consideration for many monetary reforms. So the German reforms were a good example for the *euro* that was introduced with a similar spirit for harmony among the participating nations.

New currencies need intensive preparation covering political, economic and technical aspects, and even psychological planning. The introduction of the *euro* was an outstanding example of this. The compromise between national and supranational ideas played an important role during the creation of a single currency for Europe. *Euro* banknotes, issued by the European Central Bank, demonstrate the supranational idea. They show different styles of European architecture without national allusions. Only *euro* coins have national symbols, as the right of coinage has been retained by the nations of the European Monetary Union. Each of the eight coins for general circulation has a national obverse and a European reverse.

The first name proposed for the European money had been its forerunner, the *ECU*, an abbreviation of “European Currency Unit”. When it was realized that *ECU* seemed to revive the *écu*, the famous French gold coin from the Middle Ages, the governments looked for a compromise that avoided such national connotation. So the new money was named *euro*. The habits of handling money and sentiments of monetary identity are deeply touched by a new currency. Economists tend to neglect the reality of feelings and habits rooted in the monetary socialization of both individuals and nations. To explain this, we might only ask, “Would French or British like to have the German *mark* as a name for their new money?” Our approach to monetary history tries to integrate economic, political, administrative and psychological aspects, and all of these are tightly interwoven.

1. The general political and monetary background

The German Empire was founded in 1871, following the Franco-German War. It comprised 4 kingdoms, 6 grand-duchies, 5 duchies, 7 principalities, 3 free cities, and the province of Elsaß-Lothringen which was taken from the French. According to its constitution, the Empire was a federation of States, presided over by the German Emperor. This was the King of Prussia, the head of the leading and most powerful State. The agreements preceding the new constitution had shared the administrative powers between the Empire and the States. Such a compromise between central and federal rights played a defining role in the development of the German nation.

A unified currency was needed in this era of industry and expanding world trade. The constitutional responsibility for the monetary system was the province of the Empire. All States relinquished their right of coinage in favour of the Empire. The pre-imperial system comprised seven regional currencies that were supplied with coins from the mints of the individual States. Each of these currencies had three levels of coins, similar to the well-known English system of

pound, shilling and penny. The German systems combined their silver currency with fractional coins at the *groat* level, often in debased silver, and small change, mostly in copper. For example, the Prussian *thaler* contained 30 silver *groats*, the *groat* being 12 *pennies*. A decimal currency had unsuccessfully been discussed after 1815. As the *thaler* had too much value for being divided into 100 *pennies*, non-decimal coins like $\frac{1}{2}$ and $\frac{1}{4}$ *penny* would have been inevitable, due to the low price level for small portions of food. In that time, the decimal system met with emotional difficulties. Germans in the Rhineland had suffered from French occupation, and during this time they had experienced the *franc* and *centime* for 20 years, until the defeat of Napoleon in 1815. So the decimal system was prejudiced to be foreign. After the liberation, the traditional German currencies were restored and French decimal coins were abolished for patriotic reasons.

2. The change of the metal standard and the introduction of a new coin system

The monetary reforms of the Empire aimed at a new currency, suitable for the international trade of a highly industrialized country. The first step was a change of the money standard from the traditional silver to gold, making German money comparable to the leading currencies of the world such as the English *pound*, French *franc* and United States *dollar*. As early as 4 December 1871 the new currency, called *mark*, was defined, based on 2790 *mark* for 1 kilogram fine gold. Introducing the decimal system, the $\frac{1}{100}$ th part of the *mark* was the *pfennig* (*penny*). So the name of the traditional small coin of almost every local currency in Germany was retained as an element of continuity.

The first new gold coins appeared in 1871, accompanied by the withdrawal of obsolete ones. Considerable supply of gold came from the French payments for war recompense. These payments helped to take 120 million *mark* in coin as a strategic reserve for future wars, called the “imperial war treasure”, stored in the Prussian fortress of Spandau. From the beginning, the new 10- and 20-*mark* gold coins were legal tender for all payments throughout the Empire, but small amounts still had to be paid with coins of the old local currencies. From 1873 to 1878 the *mark* and *pfennig* gradually replaced the old coins, which were withdrawn at the cost of the Empire. In these years of increased production in nine mints, old and new money circulated together. On 1 December 1876, *mark* and *pfennig* replaced the old money in all official documents. For more than 300 years, Germany’s currency had been based on silver. Its role changing from the currency standard to a material for fractional coins was followed by a substantial decrease of value on the bullion market. The silver surplus from obsolete coins was even sold in London.

The law of 9 July 1873 introduced the new small coins. The nine denominations were 5, 2, and 1 *mark*, 50 and 20 *pfennig* in silver, 10 and 5 *pfennig* in cupro-nickel, and 2 and 1 *pfennig* in copper. Due to the gold standard, all these coins had limited legal tender status. The maximum for payment with *mark* coins was 20 *mark*, and the four lower *pfennig* coins were usable for amounts up to 1 *mark*. An exemption for silver kept the old *thaler* of the Prussian standard in circulation until 1907. They were tariffed at 3 *mark*, with unlimited use like gold coins. The coins from 1 *pfennig* to 1 *mark* showed the imperial eagle on the obverse and the denomination on the reverse.

3. Federal aspects in the new coin system

The monetary legislation was a field reserved to the Empire. As the Empire did not have mints, seven mint-owning States were ready to produce the coinage. New mintmarks on the coins mirrored the hierarchy of the Empire: Kingdom of Prussia (A = Berlin, B = Hannover, C =

Frankfurt), kingdom of Bavaria (D = Munich), kingdom of Saxony (E = Dresden, later Muldenhütten), kingdom of Württemberg (F = Stuttgart), grand-duchies of Baden (G = Karlsruhe), and Hesse (H = Darmstadt) respectively, and the Free City of Hamburg (J). These mintmarks (A, D, F, G, J) continue to be used by the five German mints run by the four modern federal States of Berlin, Bavaria, Baden-Württemberg, and Hamburg, which still accept minting orders from the Ministry of Finance of the Federal Republic.

The coin design demonstrated an important federal element. The two silver 2 and 5 *mark* coins, and the three gold coins (5, 10, and 20 *mark*) brought together the Empire and the States. The obverse showed the imperial symbol, the eagle, the inscription DEUTSCHES REICH, and the face value. The reverse showed the portrait of one of the 22 federal princes or the coat of arms of a free city. This practice of expressing the shared sovereignty on coins can be traced back to the German monetary system of the 16th century, and this old idea has returned in our times, on *euro* coins.

4. Harmony: Elements from the obsolete currencies in the new system

From 1834 to 1857 the German Union of Customs had built a frame for the coin systems of most German States. The northern *thaler* (dollar size coin) of the Prussian standard was linked to the southern German *florin* for use all over Germany. Special coins with a double face value of 2 *thaler* or 3.5 *florin* had been created in 1838. Austria and Liechtenstein entered that system in the treaty of Vienna in 1857. To have coins for interregional use, a new *thaler* was struck with 16.6 grams fine silver, which helped build a monetary roof for the German federation. Austria was removed from the federation in 1866, after having lost the German war against a coalition of States led by Prussia. In 1871, the new money integrated the traditions of the States by linking them to the old regional systems. This facilitated the introduction of the *mark* and helped to create harmony. We must not forget that similar projects of a unified currency had already been under discussion in the 1850s and the 1860s. Even the delegates of the German Conference of Commerce in Heidelberg (1861) had dealt with the possibilities of a monetary reform, with some ideas that could be realized in the years after 1871.

The principal elements of the new system allowed almost everybody to find something that was familiar:

- a) The *thaler* in the North would have faced problems of acceptance in southern Germany that still suffered from the war of 1866. Likewise, a new currency under the name of the southern German *florin* was not acceptable in the North. So the *thaler* standard was integrated by the conversion rate of 1:3, making the *mark* the successor of the popular Prussian $\frac{1}{3}$ *thaler*. The *groschen* (*groat*), formerly 12 *pfennig*, became equivalent to the new 10 *pfennig* coin. The latter inherited the name *groschen* in popular language, until 2001 and even more recently.
- b) Originating in the kingdom of Saxony (1840), four States had a decimal variation of the *thaler* with 30 *neugroschen* (*new groat*) at 10 *pennies* each. So Saxons were favoured with the continuous use of a 10 *pfennig groat*.
- c) The basic unit of currency in the free cities of Hamburg and Lübeck had been the *mark*, both a weight for precious metal and an accounting unit. The name of that *mark* survived in the new money (not the *mark* of Cologne!).
- d) The Free City of Bremen had a *thaler* with a unique system of fractional coins. Bremen's *thaler*, although struck in silver, was legally defined by gold, but no gold was minted. Due to the function of the city as a port for international trade, foreign gold coin was evaluated and circulated as legal tender, eg French *louis d'or*, later on gold *franc*, British *sovereign* and even the United States *eagle*. So Bremen kept its gold standard unchanged by the reform.

e) The currency unit of southern Germany was the *gulden (florin)*, divided into 60 *kreuzer*, a *kreuzer* being 4 *pennies*; in some regions, such as Bavaria, a *pfennig* was 2 *heller*. This system, combining a Tyrolian small *groat* subdivided into the Vienna *penny*, had existed since the early 16th century (in contrast to the *thaler* regions of northern Germany). The new legislation converted the *florin* at $1\frac{5}{7}$ *mark*, not very practical for accounting! The oak wreath on the reverse of the 1 *mark* coin reminded southern Germans of their former florin. The wreath, also a popular symbol of freedom, had been used for the common reverse of all southern German States after 1837. As a special concession to the exact calculation of the beer price, Bavaria was allowed to have $\frac{1}{2}$ *pfennig* coins.

f) Alsace and Lorraine, the new German province taken from France, was not favoured with allusions to the French currency. French coins were expelled to their homeland by a low tariff for further circulation.

5. Two kinds of paper money

Two different kinds of paper money circulated, namely banknotes, issued by banks, which were required to redeem their notes in silver, and government notes (in German terminology only these were defined as *paper money*!). The latter were declared legal tender with almost no possibilities of being exchanged into coin. A bank that circulated 1 million *thaler* in banknotes, had to retain a reserve deposit, usually one third of the total, to keep the banknotes convertible in coin. The other two thirds were a source of income for the bank, which could invest that capital, worth *c* 5 % of annual interest. A government that issued notes would also save interest due for State debts. Both banks and governments used their notes for obtaining credit. Any withdrawal of their paper money would reduce that credit and cause cash or budget problems.

Unlike the British or the French, many Germans had a prejudice against any form of paper in their circulation. Nevertheless, nearly all States were involved in one or even two kinds of emissions. Aiming at an end of the diversity described, the Empire had to set up a framework for new conditions, with different solutions for government paper money, and for banks having a banknote concession. The paper money reform started with a special law, dated 30 April 1874. In favour of the 26 States the paper money part of their State debts was transferred to the budget of the Empire. A new office, called “imperial administration of debts”, issued 5, 20 and 50 *mark* as *Reichskassenscheine* (imperial government notes). These three denominations were not to rival the banknotes, which were planned with a minimum face value of 100 *mark*. In proportion to the component populations, 120 million *mark* in new notes were distributed to the States for the withdrawal of their paper money. A credit of two thirds of the capital helped those States that had issued paper money exceeding their proportional limit. The credit had to be redeemed in 15 annual instalments.

In 1871, over 30 banks were entitled to issue banknotes. The emission of banknotes for the new currency was settled by the bank law, dated 14 March 1875. All banks issuing *mark* banknotes had to focus on this business. As they had to abstain from other lucrative branches of banking, *eg* financing industry and commerce, some banks gave up their banknote concession. The bank law set up a list of 33 banks with specified limits for their emission, with a combined total of 385 million *mark*. The first bank was the former Prussian bank, now transformed to the “Reichsbank” (Bank of the Empire). The unchanged blue colour of the 100 *mark* notes from Prussia to the Empire became an element of continuity – until 2001. The Reichsbank, privileged to issue 250 millions, inherited all other rights of emission. Up until 1902, 28 banks discontinued their activities in the banknote business. Banknotes appeared in denominations between 100 and 1000 *mark*. A minimum of one third of the emission had to be stored for reserve in gold, as the banknotes were freely convertible into gold coins.

6. Conclusion

The reform included three separate legal elements: coinage, government paper money, and banknotes, and an abrupt change was avoided. Traditional and regional elements were preserved under the common roof of the new monetary unit, *eg* in coin denominations, design, and even in the colours of banknotes. The ideas of compromise were helpful to the mental acceptance of the new money. As money and its tradition are rooted in the habits and feelings of the people, the strategy of creating harmony has to be taken into consideration for any monetary reform. So the German reforms served as a good example for the new European money that was introduced with a similar spirit for harmony among the participating nations.

We have tried to analyse a truly complicated matter that is not the preferred subject of general historians. In this field, money and banking museums are the real and legitimate interpreters to the public.

For further reading [in German]:

HANS-DIETRICH KAHL, *Hauptlinien der deutschen Münzgeschichte vom Ende des 18. Jahrhunderts bis 1878*, Frankfurt 1972.

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