

Currencies of the World Gold: The Once & Future King

SUPERIOR GOLD GROUP ORIGINAL



The experts at the Superior Gold Group have taken a break for modern day economics, to bring you a historical perspective on money around the globe. When was money introduced? What happened to gold? Why is gold still in demand? All that and more can be found in the following article.

Money has many names in many places, but it is remarkable how often the same terms come up. Terms like lira and pound remind us that money is a weighty matter. Schillings and talers remind us of shillings and dollars. We find the word dollar in use in Hong Kong, Taiwan, Canada, Australia and the USA. By different names the dollar is available in Djibouti, Panama and many other places. Another widespread term is peso.

Where do these terms come from? What did people mean when they started using these terms? And what do these currencies represent now? As well, what information can we glean from the relative values of the various world currencies?

Let's start in Europe with some of the predecessors of the European Union (EU) euro: the mark, franc, florin, peso, and lira. Then we'll examine a few of the surviving European currencies, the pound sterling and Swiss franc. Other countries too numerous to name will await future newsletters.



GERMANY

Germany has used a number of terms for its coins, including the mark, the taler, and the gulden. Neighboring Austria has used the schilling. Today, both use the EU euro.

The term mark refers to a boundary or border. In English, we speak of boundary markers and in Scotland they still refer to the march or border region. (The boundary between winter and spring is the month of March.)

This term is consistent with the French "marche" and the Spanish "marca." Various German place names arise from the term such as

Danemark, Ostmark, and Finmark. Another word with similar derivation is market.

What happens at borders? Why, trade, of course. Money is needed in trade, especially where goods must travel a long distance to reach their market.

By at least 1042, the mark was used as a currency in parts of Germany. Records indicate that the mark was defined as half of a Cologne pound in that year. The Cologne pound was just over 15 ounces troy or 468 grams. So, a mark was 7.5 ounces... or about 234 grams of silver. A hefty coin indeed!

Subsequently the mark was displaced by two other units of currency, the gulden and then the taler. The word "gulden" comes from the "Middle High German" word "guldin pfenni", meaning golden coin. Another name for the "Gulden" was florentiner (fl.). The words guilder and florin in Holland are related. The gulden was popular from 1200 to 1590, a time when the Hanseatic League was spreading its trading empire across northern Europe. As with most widely used coins at the time, the gulden or guilder was precious metal.

The taler sounds much like dollar and probably came to English by way of Spain (the old Spanish dollars being the most stable currency in Colonial America). "Tal" in German refers to a valley.

You've probably heard of the Neanderthal man – the bones of which were first identified in the Neander valley. A particularly important valley, now in the Czech Republic, was Joachimsthal in the Erzgebirge mountains, from which the metal for the first Joachimstalers was mined. The term was quickly shortened to taler.

In 1871, under the leadership of Bismark, the taler was swept away and replaced again by a mark. The new currency was specified such that three marks would correspond to one taler. The taler remained valid until about 1907. Although Bismark was very excited about a number of interventionist schemes and was a great enthusiast of regimented public schools, his coins continued to be precious metal.

Meanwhile, in Austria down near the Byzantine empire, the basic unit of gold for exchange was the solidus. The solidus is actually one of the most widely used gold currencies and the basis for other monetary units from China to Spain. The term schilling or shilling means "division" or fraction. It was originally applied to subdivisions of the gold tremesis, or one-third solidus coin.



FRANCE

The French have used a number of terms for their coins through history. One of the more popular is franc.

The term franc or Frank meant "free" to the people of France. So, a Frank was a free person. (The term Thai has a similar meaning in Siam.) Obviously, this term gives its name to the country, France, as well.

The year 1360 was a big year for being free, being French, and having francs. Jean le Bon or "John the Good" had been captured by the English in 1356 at the Battle of Poitiers. He was freed in 1360. He issued the first franc coin in the history of France, the so-called franc a cheval which depicted the freed king on horseback. The words "Francorum rex" appeared on the coins, indicating that John was "King of the Franks." This gold coin was equal in worth to a livre tournois or Tours pound.

In 1575, King Henri III created a silver franc coin weighing about half an ounce troy (14 grams). Unfortunately, the coin lacked a milled edge and was frequently clipped. So, a royal decree in 1586 forbade further minting of this coin. Half franc and quarter franc coins in this series were minted until 1642.

Napoleon issued a series of silver franc coins. The one franc piece of 1803 was called the franc germinal after acts of the Germinal year eleven (since the consolidation of the French Revolution in 1792). The twenty franc and forty franc coins were minted in gold, the unfortunate concept of bimetallism (fixing exchange rates between two metals) being popular at the time.



HOLLAND

For Holland or the Netherlands, we've already discussed the guilder and florin as related to the Hanseatic gulden. Another Dutch coin is the Ducat, which is presently one of the oldest gold coins continuously minted. The Dutch Ducat coin, used previously as a trade money, has been minted in the same form since 1586.

First minted in Sicily by Roger II, roughly 1180, the term ducat comes from "ducatus" or Duchy. Roger was the Duke of Apulia.



SPAIN

The Spanish term peso means weight. The first pesos coined in Spain arrived in 1497 and were also known as pieces of eight. The pieces were of eight reals, the real (Spanish for royal) being another common coin of the era. Other names for these coins include duros, duros fuertes (Spanish for hard and strong), thalers, dollars and piastres.

Each piece of eight reals was just under 424 troy grains and made of silver .93 fine. Notably, at the time, silver and gold were about to be discovered in dramatic quantities in Mexico and Peru.

Unfortunately, the history of the Spanish monarchy includes repeated debasements of the currency, tri-metallism, deliberate programs of clipping, and suspension of debt payments. The credit of Spain went from bad to worse and its position as a world power dwindled. Nevertheless, the weighty peso continues to be seen in Mexico, the Philippines, and other countries.



ITALY

The term lira comes from libra or balance. It refers to a balanced scale, the symbol of the Zodiac sign of the same name. Libra is not to be confused with libero, the Italian word for free. Lira is also used as a term for pound, akin to the French word livre. The very first lira was minted in 1472 in Venice. While originally a silver coin, the lira was devalued after World War Two and inflated so much that the centesimi (cents) were obviated. By 1984, one and two lira coins were no longer made.

It is interesting that the Italians still use the lira, even though their country has officially moved to unification with the EU euro. Perhaps Italians have gotten used to being millionaires every payday. By one report the lira will continue to circulate until 2011.



EUROPEAN UNION

The European Union is an extension of various Nineteenth Century efforts to unify various parts of Europe. The Italian city-states and the various German principalities were each unified during the 19th and early 20th Centuries. Of course, not all efforts at unification were equally well received. Napoleon, Hitler, and Stalin had their approaches to unifying sections of Europe which were only deterred at considerable cost in lives and treasure. (Nothing new, really, as the Huns, Mongols, Ottomans, Byzantines, and Romans had made various efforts to unify Europe in the past.)

Initially, the transnational government called the European Union was an idea for a common market. The intention was to promote free trade within the European Common Market in much the same way that trade among the several states of the USA is unimpeded. Gradually, the mandate was expanded beyond trade. As the focus shifted from free trade to various trade agreements, the European Common Market became the European Community (EC). From a community of interests, the diplomats extended into a union of governmental power, finally creating the European Union.

Very recently, member states were asked to unify their currencies. Thus, the foregoing discussion of the German mark, French franc, Dutch guilder, and Spanish peso is mostly of historical interest. The only currency still used significantly within any of the currency-unifying nations is the Italian lira.

Now that we've gotten up to current times, let's look at this currency compared to two familiar alternatives: the dollar and gold.

How has the EU euro done in the last year against the USA dollar?

On August 6th, 2002, one USA dollar would buy 1.02 EU euros. On August 12th, 2003, one USA dollar would buy 0.88 EU euros. In other words, the dollar has lost ground against the euro by almost 14%.

How has the EU euro done in the last year against gold?

Since gold is traded in USA dollars, the method is calculation. On August 6th, 2002 the troy ounce of gold would buy 299.22 euros. As of this writing, August 12th, 2003, the troy ounce of gold will buy 316.42 euros. That increase is about 5.75%.



UNITED KINGDOM

The familiar British currency, the pound sterling, remains a fixture of British society. Efforts to replace it with the EU euro have thus far been poorly received by the British people. It is little wonder, since Britons have had the same national currency for over 900 years. The origin of the pound sterling goes back even further. In comparison, as we've seen above, France and Germany each had national currencies change over and over again in the same millennium.

The need for coins to pay Viking invaders their Danegeld (and to avoid paying through the nose – literally having your nose slit by a Viking interloper) caused a substantial increase in minting operations in England. Athelstan had at least thirty mints in operation. The Statute of Greatley was passed in 928 AD stating that there would be only one type of money or currency in England.

After the Norman conquest and another century had passed, the sterling was introduced in 1158 by King Henry II. It was originally an old English silver coin made of sterling silver and weighing one two hundred fortieth of a troy pound, or a twentieth of a troy ounce (about 1.555 grams). So where does the term come from?

Sterling may have originated in the Easterling region of Germany. In the Twelfth Century, five towns in eastern Germany formed the Hanseatic League.

They adopted a program of free market trading with much of Europe, including England. The Hanseatic coins were of 92.5% silver and valued in England for their hardness and high quality. The English referred to them as "the coins of the Easterlings" and Henry II brought metal refiners from the Easterling region to make silver coins for his mint. "Easterling silver" may have become "sterling silver." Another theory suggests that one of the mint marks of the sterling silver Tealby penny was a star and a starling. The starling would have given rise to the term "starling silver" and from there the corruption to sterling would be obvious.

The symbol we all know, that loopy L with a cross halfway up the main stem, shows the Roman origin of the term. Pound in Latin, as above, is libra, thus the letter L. The cross might be reckoned as an evenly balanced scale, the other meaning for libra.

The pound sterling went to a gold standard designed in 1717 by Sir Isaac Newton and officially adopted in 1821. This standard lasted until 1919 when Britain, under terrible strain due to the cost of World War One, abandoned it. A variation was adopted in 1926, although Britons were only able to redeem their currency for gold bullion rather than for coins. In 1931, the pound sterling was devalued 20%. By the end of World War Two, it returned to a modified gold standard, being redeemable for US dollars which Britons could redeem for gold until 1971.

In 1999, the House of Commons Library published a research paper which included an index of the value of the pound for each year from 1750 to 1998. The value in 1974 was indexed at 100.

The value of the index in 1750 was 5, increasing to a peak of 16 in 1813 (with Britain at war with the USA and the Napoleon matter not wholly settled). After 1820, the index declined to around 10 and remained in a range of 8.5 to 10 all the way through the end of the Nineteenth Century. The index was at 9.6 at the start of World War One, and peaked at 24.8 in 1920. By 1933, it was 15.5. In other words, prices were a bit more than three times as high in 1933 as they had been in 1750. Inflation skyrocketed after World War Two with the index at 20 in 1940, 68 in 1970, and 592 in 1998. (You can see that after redemption to gold, even by way of the dollar, ended in 1971, inflation became unrestrained.)

Examining the same inflation a different way, one can chart the purchasing power of a 1758 pound sterling in terms of the pence it was worth in successive years.

In 1758, the pound sterling had a value of 100 pence of 1758. Twenty years later, the equivalent of a 1758 pound sterling had 113 pence of 1778 purchasing power. A hundred years later, it was gross: 144 pence of 1858 would purchase what a 1758 pound had purchased. Two hundred years later, the figure was 733 pence of 1958 to purchase the equivalent in value that a 1758 pound had purchased. By 1998, not even half a century further on, it would take 9,547 pence of 1998 to procure the same stuff one pound sterling had purchased in 1758.

Put another way, the pound had declined to one ninety-fifth of its former glory. Ninety-eight point nine five percent (98.95%) of its purchasing power was eroded in 240 years.

So, even though inflation averaged just 0.4% in this period (most of the inflation happening in recent years) the store of value which this money represents was almost completely eroded in 24 decades.

Now, you may be saying to yourself, there's nothing about storing value for 240 years that I need to worry about. If so, then you have neither life extension nor dynastic aspirations.

In his 1995 classic on Reversing Human Aging (a copy of which I am indebted to a friend in Houston, Texas for sending along), Dr. Michael Fossel explains that research on the biological clock is nearing fruition. It is both showing the way to effective treatments

of all malignant cancers and also presenting opportunities for the treatment of all age-related deteriorations.

To summarize his report, with chemicals to inhibit the expression of a certain enzyme, cancers can be prevented from growing malignantly. With other chemicals for inducing the expression of this same enzyme, age-related disorders can be eliminated. He suggests that if the actuary tables ordinary insurance companies have on hand are consulted, the potential extension of life spans up to seventeen centuries are possible.

The dynastic consideration is equally significant. Most people older than age five may now aspire to live until at least 85. Allowing for only modest gains in longevity during that time, you might live to be 120 years of age. Your children, living to the same age, if they were born on average when you were 30, would extend the dynasty to 150 years. Their children, the grandchildren you may already know and love, born in your fifty-fifth year and living for 150 years would extend the dynasty to 205 years. The great grandchildren you may meet near your 80th birthday— living for 160 years— would extend the dynasty to 240 years.

In other words, the patriarchs and matriarchs passing away 240 years in the future from your birth date might well be great grandchildren of your acquaintance

If you live to be 120, you might meet your own great-great grandchildren when you are 115, and know them as five year olds before you pass away. Living for 150 years, these children would carry your dynastic tradition 265 years into the future from your year of birth.

The question for you to examine, then, is what will you create in terms of wealth before you pass away at the age of 120? What will that wealth be worth in terms of purchasing power, if you keep it in a form that inflates away at as slow a rate as 0.4% per year, when your great-great-great-great grandchildren inherit it?

Are you prepared for the seventh generation to receive one tenth of one percent of the value you created, having chosen to store your wealth in currency? Or are you determined to buy equity in companies which will extend into the future, creating value for

every generation to come, along with gold and silver which retain their value long into the future?

So, over the period from 1758 to 1958, only 13.64% of the value had been lost. On average, the inflation was only 0.0682% per year. A bit more than ten years later, things go bad in a hurry. So, if there is redemption of the currency you are using— if it can be brought back to precious metal OR if it circulates as precious metal coins— you should be okay holding that currency. Once the government debases the coins and turns them out of metal suited for pots and pans, your troubles have begun.

Let's take a look at the British pound versus the USA dollar in the last year.

On August 6th 2002, the USA dollar would buy 0.64 British pounds. On August 12th, 2003, the USA dollar would buy 0.62 pounds. Not much changed.

The British pound against the price of gold:

On August 6th, 2002 an ounce troy of gold was worth 195.33 pounds. On August 12th, 2003, an ounce of gold is worth 221.71 pounds.



SWITZERLAND

The term franc has been previously discussed. Switzerland picked up the franc habit from Napoleon at the time of the Republic of Helvetia in much the same way the Dutch picked up the term douane having never previously had a concept of customs fees or duty on imports. The negative impact of Napoleon on European history would be a newsletter unto itself, though we must admire him for consistent use of gold and silver in his currency.

The Swiss franc against the USA dollar

On August 6th, 2002 the USA dollar would buy 1.48 Swiss francs (CHF). On August 12th, 2003 the rate is one dollar for 1.36 Swiss francs.

The Swiss franc against gold declines from 452 CHF to the ounce to 489 CHF to the ounce.

The price increase of gold against the dollar, euro, pound, and Swiss franc shows that he is correct.

The above review of currencies suggests that there are safer currencies than the dollar right now. However, none is so safe as gold. Gold retains its value while others inflate.