The silver empire: How Germany created its first common currency

More than 300 autonomous members of the Holy Roman Empire came together to create a common currency based on silver in the mid-sixteenth century. Drawing on a new book, **Oliver Volckart** *explains the background to this important moment in Europe's economic history.*

In the mid-sixteenth century, the Holy Roman Empire had about 300 largely autonomous members, most of which were still issuing their own currencies. My book "*The Silver Empire*" examines why and how they replaced this plethora of monetary systems with one common currency, introduced in 1559 to 1566. While my work pays equal attention to the economic and constitutional conditions that shaped monetary policy decisions, here I focus on economics.

Creating a currency

One surprising thing my analysis shows is that unlike modern governments that join currency unions, none of the members of the Empire were remotely interested in supporting economic integration. Rather, they tried to solve problems that resulted from three fundamental conditions which shaped the premodern monetary economy.

These were, first, the use of coins with an intrinsic value that made them in principle acceptable anywhere (at the discretion of the consumers). Second, the lack of currency borders that resulted from this fact as well as from weak state capacities. And third, the integration of markets, which caused not only high-purchasing power trade coins but also growing quantities of small change to travel increasingly large distances.

These conditions encouraged many authorities to issue underweight imitations of better coins minted by their neighbours. Merchants could use the poor copies to buy up the better originals, which they then delivered to mints that used them as raw material to produce more copies. Most consumers being illiterate and poorly informed, they were unable to distinguish imitations from originals, accepting the shoddy copies without questions. Again and again, "bad" money displaced good coins on the markets of the

Empire: Gresham's Law was in full force.

Typically, the authorities that issued the better originals tried to defend their own currencies by adopting the standard of the poor imitations. As the producers of the imitation coinage reacted by debasing their poor copies even further, the consequence of such policies was rounds of debasements – debasements that were initially intended to be "defensive" but that quickly turned competitive. Realising this, an increasing number of members of the Empire concluded that creating a common currency was the only sustainable response to the systematic lack of monetary stability.

A resounding failure

In 1548, the imperial diet – the parliament of the Empire – called a conference that was to draft a bill intended to create such a common currency. A year later, the conference – attended by representatives of many members of the Empire – did so, agreeing on the standard of a common silver and gold coinage. However, it failed to decide whether gold and silver were to circulate at fixed or floating rates, that is, on whether the Empire should introduce a bimetallic currency such as the one England had at that time, or a duometallic system of the kind typical of much of the late Middle Ages.

Most princes favoured bimetallism, mainly because many of them had incurred huge debts that were typically denominated in gold and had to be serviced in gold. As the domestic supply of silver grew during the sixteenth-century mining boom, while imports of gold – mostly from West Africa – did not keep up, gold was steadily appreciating.

Accordingly, servicing gold-denominated obligations became increasingly difficult. A bimetallic currency based on a legally fixed value ratio of gold and silver coins would have allowed such debts to be also serviced in silver. To be sure, sixteenth-century state capacities were insufficient to enforce such ratios on the markets of the Empire, but from the perspective of indebted princes, this was an advantage. While they could purchase silver coins at the going market rate, they would be able to force their creditors to accept that money at its legal value.

Unlike most princes, four of the most powerful ones ruled territories that straddled the Rhine. The archbishop-electors of Mainz, Trier, and Cologne, and the elector Palatine derived much of their huge wealth from taxing the Rhine trade – and they did not only tax it in any way that seemed convenient but insisted on traders paying the dues in gold.

A bimetallic currency, where the ratio between gold and silver coins was once and for all legally fixed, was in no way in their interest. When Charles V, who was himself heavily in debt, used his authority as emperor to decide the dispute in favour of bimetallism and published a bill intended to introduce a bimetallic currency in 1551, the four electors on the Rhine refused to implement it. Other members of the Empire took their cue from them, and the result was that the new currency turned out to be a resounding failure.

The silver taler

As long as Charles V ruled the Empire, a solution remained elusive. However, having seen not only his common currency fail but also his attempt to contain Protestantism and to strengthen his own constitutional position, he abdicated and retired to a monastery in Spain. In 1556, his younger brother Ferdinand I took over. Ferdinand quickly realised that a compromise was required to solve the currency problem. At the diet of Augsburg of 1559, the standard agreed a decade before was confirmed, but bimetallism was abandoned.

At the end of the 1550s, the Empire did finally have its common currency – though universal acceptance took time and few more adjustments. It was only in 1566 that the imperial diet decided to integrate a variant of the silver *taler*. High-quality *talers* that markets strongly overvalued were issued by electoral-Saxony; the variant the diet adopted was comparatively base. However, once this variant was legalised and given all the backing the Empire was able to confer, the Saxon elector decided to accept it and with it the common currency.

The alternative would have been to continue producing his better *talers*, only to see them disappear in the mints of his neighbours. There they would be used as raw material for the *talers* the Empire had legalised – the "*Reichstalers*" or Imperial Dollars which continued to set the standard of German money into the nineteenth century.

Oliver Volckart will be presenting material from his book at an LSE event on 23 October 2024, [What was the Holy Roman Empire? What monetary policies tell us about premodern multilaterism]()

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