

BRITISH GEOPOLITICS AND THE INTERNATIONALIZATION OF THE POUND STERLING¹

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Introduction

There were few currencies that took a leading position for the whole international economy, serving as the currency of quotation, settlement and reserve value for transactions involving payments and receipts, credits and debits between different independent national monetary systems. Only the pound sterling after the Franco-Prussian War (1871) and the US dollar since World War II have achieved such pre-eminence.

Before, when there was no global reference currency, it is controversial to suppose that transactions between different political-territorial spaces were based on barter operations; or that they ceased to happen; or that some merchandise had been chosen to perform the functions of general equivalent and means of exchange. The historical research has been showing that, in these cases, the “international” transactions involved: or (i) a combined transaction between export and import intermediated by the account currency of the territorial political space where the transaction was geographically given³; or (ii) the use of credit instruments (bills of exchange, for example) that allowed the conversion of exchange rates between different currencies⁴.

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³ In this case, in order to import any merchandise, it is necessary to sell something (export), in order to obtain the local currency and, through it, to acquire what one wishes to import. See Goitein (1967, 200) and Metri (2014, 192-198).

⁴ In this case, there must be a network of compensation centers of specific financial instruments to currency conversion, such as the bill of exchange of yesteryear. See Goitein (1967,

Since the sixteenth century, the circulation space of the pound sterling has expanded beyond the borders of England, establishing itself as the first international reference currency after 1871. Associated with this occurred the globalization of the pound-gold monetary standard. The objective of the paper is to analyze the internationalization of the British currency, the pound sterling, during the XVII - XIX centuries. The analytical perspective is that this process accompanied the defensive and expansive movement of the English power in response to ongoing threats of that era and, therefore, came as the result of the British geostrategy itself.

Besides this introduction and the conclusion, this paper is divided into three other sections. In the next one, the relations between geopolitics and the internationalization of a currency are analyzed in general terms. Afterwards, a brief description of the English geostrategy since the sixteenth century is made. Thus, it is intended to be clear the parameters that guide the actions responsible for the extension of the monetary territory of the pound, subject of the last section before the conclusion.

From Geopolitics to Monetary Territories: brief theoretical notes

The term *geographic coercion* created for the historian Fernand Braudel is referred to one of the structures that formed the base of the History of the Men and act over this as “long term prisons” (Braudel 1990, 50). In some of his books⁵, the author incorporated geography as the starting point of his analysis, more precisely the relations of space with men movements, in order to reveal one of the realities that constrain the paths of societies over time⁶ (Metri 2017b).

For the international system, geography also has influenced its history since its medieval origins to the present days, as well as its featured inter-state relations, mainly when interpreted with a *hobbesian bias*, in the sense that each political-territorial unit constitutes a potential threat to the others⁷. This makes the prospect of confrontation and the wars themselves a chronic result of the system, marked for a constant competitive pressure *on each other* (Metri 2017b).

242) and Metri (2014, 172-175).

⁵ Highlight for Braudel (2000).

⁶ Braudel (1990, 49-50)

⁷ Hobbes (1983, 75).

The important issue to realize in this context is that the geographic knowledge acquire strategic character, becoming itself a necessity to the central authorities that command the political-territorial units of the international system. There are at least three reasons of this *geostrategic imperative*. In the first place, the knowledge and the constant study of the many aspects which characterize the geographic space are indispensable to the formulation of any security strategy of preparation of defense and/or conquest (military reason)⁸. In the second place, the continuous development of the productive forces and necessary activities to the provision of material resources relatives to the permanent preparation for war does not occur without the specificities of the geographic space occupied and organized for such purposes (economic reason)⁹. Thirdly, the war effort requires the organization of a tributary system of payments, structurally based on a currency, which constantly makes viable both the extortion of material and human resources located in the geographical space of domination, and the development of productive activities in general (monetary reason)¹⁰.

Not for other reasons, among the superpowers geopolitical reflections were disseminated and also geoeconomic ones, however there are only a few with a geomonetary character, about their space of interest to outline their (geo) strategies (military, political, economic, monetary and financial) against external threats and internal challenges. It seeks to take advantage of and / or mitigate vulnerabilities.

About the geomonetary challenges, it is necessary to understand that taxation is one of the instruments used for the occupation, organization, structuring and exploration of a geographic space, especially to make both the extortion of resources (material and humans), and the economic development associated to the defense effort and conquest possible. On the other hand, the currency is nothing but the counterpart of the taxation, it means, the instrument used for the central authority to make its spending and accept by it for the liquidation of tax debts, as defined in Knapp (2003, 32-38).

The capacity to declare (impose) the condition of debtor (of tribute) to the collectivity in which it dominates is what guarantees to the central authority the exclusively privilege to proclaim (enunciate) how these obligations must be liquidated. Only the central authority, which legitimacy inside of a geographical space is based on the domination of the mechanisms of violence and physical coercion, has the power to create a currency of account, define

8 Lacoste (2008, 23).

9 Gottmann (1975, 534-535).

10 Metri (2014, 134).

the means of exchange and guarantee social recognition of both¹¹. Indeed, every monetary unit is an arbitrary denomination. It depends on a power that establishes and proclaims it (Knapp 2003, 21-22).

Therefore, the territorial limits of validity and circulation of a currency are directly related to the scope of taxation mechanisms or, more appropriately, to the space of the effective exercise of violence. One can mention, then, a monetary territory derived from social processes related to the strength and expansion of a central authority (Metri 2014, 65-70). In such a way, if we suppose that these central authorities (States, for example) act from geopolitical and/or geoeconomic challenges, the form that assume the monetary organization of its territories will respond to the characteristics of these challenges and of the geostrategies involved. This is the connection between geopolitics and currency of a theoretical point of view, where the link is the concept of territory as a geographical space accessible to men, which organization, use and occupation are defined by processes and permanent political interventions¹².

In the International Political Economy (IPE), the debate about the internationalization of a currency has as central parameter the advantages seek by the set of agents (political and economic) that operate in the international scope. There is an underlying idea of free choices, and that the national currency with more accessions will prevail, or at least the most important ones¹³. It is important to realize that, in general, it is not considered that the possibility of the internationalization of a currency is related to the capacity of the state with a superior military power to compel the other agents and central authorities to operate based on its national currency. This is because there is a common difficulty in dealing with the dimension of power in monetary affairs. The category *power* appears as a historical condition and not as a relevant theoretical dimension; an external category and foreign to the concept of currency from which they depart (Metri 2014, 36-39).

According to the perspective of this paper, the internationalization of a currency is due directly to the projection and the conquests of the most well succeed power in geopolitics global disputes. They are processes whose dynamics are manifested to a great extent at the end of international conflicts and in the international negotiations that accompany them. Indeed, the methodology that organizes the relevant historical information is based on the following general aspects. The first one are territorial conquests, commercial routes, building of colonial systems and other forms of expansion of the

¹¹ This is the concept of coin. Knapp (2003, 35).

¹² Gottmann (1975, 525-526).

¹³ Helleiner and Kirshner (2009, chapter 1).

direct domination space. In this case, occurs an extension of the scope of taxation, and also of the possibility of the (re) structuring of economic life these taken spaces as a means of institutionalizing the necessities of importation and financing in the *expansive currency*, frequently associated to the imposition of the *metropolitan commercial exclusivism* (Metri 2014, 87-88). As it will be argued, something usual in English history.

The second aspect is the building of hierarchical and asymmetric economic relations between different central authorities, arising from the negotiation of unequal agreements of a commercial, financial or investment nature, most often associated with contexts of wars and interstate disputes. In some cases there is the definition of a specific currency as the reference one, which “choice” reflects the relations of power and power between the central authorities involved. In other cases, there is the accumulation of imbalances in the external accounts of central authorities that are disadvantaged in the negotiations, whose solution involves the use of indebtedness in the *expansive currency* (Metri 2014, 88-89). This also was a very common dynamic in the history of the pound internationalization.

The third aspect is the domination of strategic spaces and the zones of accelerated accumulation of wealth characteristic of each historical period, such as commercial routes and warehouses, consumer markets, sources of raw material, etc. Once theses spaces and zones have been dominated, the other states become compelled to operate on the basis of the currency arbitrated by the expansive power otherwise they would be excluded. Depending on the strategic importance of theses spaces and zones, their domination means a veto to the initiatives of projection of power and wealth of the others (Metri 2014, 89-91). As it will be seen, this was, for example, the form of framing of Germany shortly after its unification.

Finally, it should be noted that, because of the significant advantages in having the reference currency, international monetary disputes acquire important status in the competition between the super powers. The projection well succeeded of a determined currency means a veto to other similar initiatives, besides the imposition and generalization of the problem of external restraint. Thus, just as in power struggles, monetary disputes assume the form of a systemic game of relative positions where the rise of one represents the fall of others.

The English Geostrategy in Historical Perspective

Following this brief description about geopolitics and monetary ter-

ritories, one returns to a concise narrative about the evolution of the English (geo) strategy over time in order to make the background and the parameters that guided the actions responsible for the extension of the monetary territory of the pound throughout the centuries clear.

To many authors¹⁴, since the Middle Age (century XI-XIII), relations between the central authorities were guided, in last instance, by the perception of reciprocal threat, forging, with effect, a *competitive pressure*, whose dynamic responded to the challenge of take care for the social existence of its group, impelling the conquest of frontier lands and the subjugation of close neighbours. Such dynamic formed the very own interstate relation centuries later in a global scale¹⁵.

With the emergence of the Plantageneta Dynasty (1154-1399), the borders of the kingdom came to encompass England as well as expressive continental dominions¹⁶. Its “geostrategy” was guided by the logic of expanding boundaries against contiguous enemies and direct close threats, whether on the continent or in the British Islands as a whole, seeking to expand the protection zones and to provide raw materials.

However, with the failure of the Hundred Years War (1337 - 1453), the English no longer disputed positions on the continent and:

Between 1453 and 1558, between the end of Hundred Years War and the resumption of Calais by Francisco da Guise, England, without being aware of at the time, become an island (forgive-me the expression), this is, an autonomous space, different of the continent. Even this decisive period, despite the Mancha, despite the North Sea, despite the Strait of Calais, England was corporately linked to France, to Netherlands, Europe (Braudel 1998, 326).

The fact of having to assume its insularity, because of a military defeat, occurred simultaneously with the rise of new threats from the continent, the Habsburg Empire and the Kingdom of France, both with expressive territorial extension. Furthermore, with the reform of 1534, England founded its own religion, the Anglicanism, moving away from the Catholic Church of Rome and instituting the British monarch as its supreme head. Therefore the antagonisms against its catholic enemies from the continent, France and Spain, were reinforced (Metri 2017b).

However, there was a geographic revolution of the international system with significant effects for England, due to the Russian expansions in

¹⁴ Elias (1993), Tilly (1993) and Fiori (2004).

¹⁵ Elias (1993, 47).

¹⁶ Elias (1993, 111).

Eurasia from 1462¹⁷ and the Iberian overseas one since 1488¹⁸ (Mello 2011, 43). In this context, England made a progressive transformation in its geopolitics, that was no longer guided by territorial frontier disputes on the continent and began to seek the preservation of the European balance of the power as well as its projection overseas¹⁹. It has, in effect, prioritized the development of its navy war and merchant navy, that is, of an expressive naval power, aiming to control the seas, the construction of a colonial empire and privileged positions on several boards. This strategic change, even without a complete formulation and awareness of its reach and depth, was only possible since it happened due to the discovering of the New World and of the new routes of navigation to the Far East (Metri 2017b).

Each well succeeded step of the English projection, of its conquests in different game boards over time, based on this new strategy, determined the territorial advances of the pound to beyond its political space of origin, once this conquests derived tributes, commercial monopolies, treaties and unequal agreements of the most varied, whose achievement implied (directly or indirectly) the arbitrage of a monetary unit of reference, thus guaranteeing the expansion of the pound. This is the central connection suggested between power and currency, geopolitics and monetary territory to the interpretation of the raising process of the pound to the condition of the first currency (national) of actual global reference.

Since then, there were two foundational parameters of the English geostrategy: consolidate itself as the most important navy power globally; and act for the preservation of the balance of the power in Europe and, latter, also throughout the Eurasian mass.

In a first moment, between 1516 and 1659, although the dynamic was of a systemic game, in which there were no permanent allies or perennial enemies, the focus of concern generally fell upon the Habsburg Empire, with its extensive territories on the European continent and its rich overseas colonial spaces²⁰. In a second moment, between 1660 and 1815, the concerns in general fell more heavily on France, since the end of the Thirty Years War (1648), but mainly after the effective rise of Louis XIV in 1661²¹. These fears were preserved until the defeat of Napoleon's troops in 1815. In the nineteenth

¹⁷ The Times (1993, 158-159).

¹⁸ The Times (1993, 152-153).

¹⁹ That is why Mackinder divided the history of England in before and after Columbus. "Before Columbus, the insularity was more evident than the universality. (...) After Columbus, value began to attach to the ocean- highway, which is in its nature universal" (Mackinder 1902, 11).

²⁰ Kennedy (1989, 44-45).

²¹ Kennedy (1989, 80).

century, these concerns turned to Russia that, even before the Vienna Agreements, was already one of the main threats²².

On the one hand, the origins of the “Big Game” between England and Russia in Asia go back to the Treaties of Gulistan of 1813 and of Turkmanchai of 1828, when Persia ceded to Russia important territories in the region of the South Caucasus²³. On the other side, the very assembly of the European Concert in the negotiations of Vienna in 1814 revealed the British geostrategic priorities. the Quadruple Alliance was “destined to cut at the root, with overwhelming force whatever aggressive tendencies of France” (Kissinger 2007, 68), in order to secure European equilibrium on the continent; The Holy Alliance, promoted indirectly by England, was designed to tie the Russian initiatives to the actions of its other partners, which meant a certain power of veto to Austria, ally of England²⁴.

The practice of English imperial politics throughout the nineteenth century, served of background to the formulation of the synthesis of its geostrategy, developed by Mackinder in 1904. In his conception, there is a unique ocean of interlinked waters (*Great Ocean*) and a big continent (*World Island*), formed by Asia, Europe and Africa. In the heart of the World Island, there is the *Heartland*, “(...) a fortress inaccessible to the harassment of the maritime power of the island or marginal powers of Eurasia, while favoring the development of the terrestrial power of the continental power that possessed or would conquer that basilar region” (Mello 2011, 45). Around the *Heartland*, there were 4 marginal regions that projected themselves to the Great Ocean: Europe, India, China; and the Near East.”Unlike the pivot area, these two-sided marginal regions are within the range of maritime power” (Mello 2011, 45). However, there was a dispute for the strategic positions on the marginal regions, once this was a regional of natural projection of the land power consolidated on the *Heartland* (Russia), as well as it was the first line of defense of the maritime power (England) against the terrestrial power. It is not for other reason, as it will be seen, that important areas of the expansion process of the English currency were located in these marginal regions around the *Heartland* that Mackinder spoke of.

In short, if in a first moment the pound expansion coincided with the territorial conquests of the Medievo, incorporating mainly the continuous areas, in a second moment, due to the British geostrategic alteration, the pound expansion has been linked to the English overseas expansion based on its

22 Kennedy (1989, 168).

23 Dalziel (2006, 80).

24 Kissinger (2007, 70).

global geostrategic.

The Expansion of the English Monetary Territory

After debating the evolution of the English (geo) strategy, the focus of this section is directed to the political-military actions oriented by the English (geo) strategy that resulted in the expansion of the monetary territory of the pound. In the scope of this work it is not possible, however, to make a chronological description of the process of incorporation of all regions that somehow belonged, at some moment to the English monetary space. So, the choice to analyze some of the most important cases from the point of view of English geopolitics, identifying, when it is possible, the elements that put into evidence the *expansive* and *authoritative* character related to the internationalization of a currency.

The First Colonial Conquests

One of the first steps of England in the building of its colonial system occurred in 1497, with the revindication of the Island of New Land in Canada, annexed in 1538. However, the growing of its empire got an effective impulse in the beginning of the seventeenth century, in two main regions: North America, Antilles and the Caribbean. In a dynamic marked by advances and setbacks, the conquests in North America were: Virginia (1607); Massachusetts (1620); New Hampshire (1623); Maryland (1632); Rhode Island (1636); Connecticut (1639); New York (1664); New Jersey (1665); Pennsylvania (1681). In the Antilles and Caribbean, the English dominated: St. Lucia (1605); Bermuda (1609); Barbados (1624); Barbuda (1628); Nevis (1628); Bahamas (1629); Montserrat (1632); Antigua (1632); Anguilla (1650); Jamaica (1655); Nicaragua (1658); British Virgin Island (1666); Cayman Island (1670); e Turks and Caicos Island (1678). There was also some conquests in Africa, Ghana (1621) and Gambia (1661), in addition to the Island of St. Helena, occupied in 1651. In the Indian subcontinent, the English also took their first steps in the seventeenth century when they settled in Bombay in 1665²⁵.

Generally, the colonial territories were directly taxed in pounds or in local currency issued by the administration of the colony. In the second case, the exchange rate issue was always a source of disputes between the authorities of the metropolis and the local ones. Anyway, colonial exports were priced

25 Smith (2003, 927-962), Dalziel (2006, 136-37) and Ferguson (2003, 43-47).

in pounds, just like its imports in general, due to the *metropolitan exclusivism*, inserting the colonies in the monetary territory of the metropolis. On the other side, the economic life of the colonies were re (structured) focused in the commodities production for foreign markets, which made them dependent on a broad range of imported goods traded in pounds sterling²⁶. Even in the case of the *white domains*, etc., what was of strategic importance to England remained somehow under strong control of the metropolis²⁷.

It is important to note that, in this period, the English currency still had a secondary position in the European context. In the Dover Treaty (1670) negotiations between Luis XIV (1643 - 1715) and Carlos (1660 - 1685), was accorded the support of England to France against Spain and Netherlands in the midst of the Wars of Return (1667-68) and the Netherlands (1672-78). In exchange, among other things, the English monarch received financial aid, which values were defined in terms of French currency, the *livre torinois*, and not the contrary²⁸.

The Anglo-Portuguese Unequal Treaties

During the Restoration Wars (1640-1688), the Kingdom of Portugal sought support that would guarantees it against its enemies, Spain on the continent and the United Provinces overseas. Given the ambiguity of French politics, the Portuguese monarchy directed its efforts to England²⁹. It was important to avoid Portugal's closeness with its continental enemies, seeking to preserve the balance of power in the region. They signed a series of Trade Agreements (1642, 1654 and 1661), culminating in the famous Treaty of Methuen of 1703. In general, in exchange for support against external threats, Portugal ceded territories such as Bombay in 1665 and allowed a privileged insertion of English merchants in the kingdom and in their colonies.

In accordance with the purposes of this work, it should be noted that since the Treaty of 1652 obligations were established in English currency. In the "(...) preliminary articles of the Treaty of Peace, signed on December 29, 1652, compensation was demanded for '50,000 **pounds** of good English cur-

26 "Every European nation had endeavored, to a greater or lesser degree, to obtain for itself the monopoly of the trade in its colonies, and for this reason they have forbidden ships from foreign nations to trade with them, in addition to forbidding them from importing European goods of any foreign nation" (Smith 2003, 726-727).

27 Smith (2003, 726-727).

28 Ogg (1984, 344).

29 Batista (2014, 44-48).

rency' (art. IV); (...)." [emphasis added] (Batista 2014, 48). On the other hand, it was only a few years before the economic imbalances between the two countries increased. Even before the outbreak of the Spanish War of Succession in 1701,

(...) there was already a strong imbalance in the trade balance between England and Portugal (the result of trade agreements) (...). D. Luís da Cunha [Portuguese diplomatic representative in London] already foresaw that the payment of the increasing balances of the trade balance, would be made in gold, and not by the importation of the 'fruits of the earth'. (...) The output of gold, necessary for the payment of the excessive balances unfavorable to Portugal, was, in the eyes of D. Luís da Cunha, something impossible to maintain that time, due to the scarcity of this resource (Silva, 2003: 63).

In this sense, because of the agreements signed, in order to make imports from England possible, the Lusitanians were obliged to sell, for example, gold (or some other product) to obtain the necessary pounds to rebalance their external accounts with England.

The approximation between Portugal and France in 1701³⁰ was reversed by the English two years later. To this end, they sent ships to the Mediterranean and threatened to besiege the city of Lisbon³¹. Compelled, the Lusitanian crown moved away from France and signed a Treaty of Defensive Alliance with England in May 1703, whose English representative in the negotiations was Paul Methuen³². A few months later, at the beginning of the War, both countries returned to the negotiating table and signed the Trade and Cloth Trade Treaty of December of 1703, a kind of additive to the Defensive Alliance agreement, whose English negotiator at that time was John Methuen, Father of Paul.

Therefore, the meaning of this Commercial Treaty signed by Methuen (father), enshrined in the economic literature by Ricardo in his Theory of Comparative Advantages, is not adequately understood if it is understood apart from the Mayan Arbitration Treaty of May 1703 signed by Methuen (son)³³. In any case, both the Treaties of Methuen (father and son) reinforced both the politico-military ties and the economic imbalances between the two countries, contributing also to the insertion of the Kingdom of Portugal and

30 Silva (2003, 70).

31 Silva (2003, 71).

32 "Basically, the Allies promised naval and land security to the Portuguese state and required the right of access to the Lusitanian ports to carry out the landing of the troops, part of which would be allied to the Lusitanian army" (Batista 2014, 90).

33 Silva (2003, 70).

its Colonies into the monetary space of the pound in the following centuries.

The Spoils of the “Second One Hundred Years War”

The successive peace treaties that ended each of England's wars between 1689 and 1815 reveal their strategy of defending, on the one hand, the balance of power in Europe and, on the other, disputing control of the seas and building an empire colonial.

The Treaty of Ryswick ended the War of Nine Years (1689-1697) and established, among other things, the resignation of Louis XIV as part of his conquests, the recognition of William of Orange as King of England, the assignment of the New Land Island and the Hudson Bay to the English.

In the Treaties of Utrecht (1713) and Rastatt (1714), which ended the War of the Spanish Succession (1701-1714), it was decided that France would abandon its claims on Nova Scotia and New Land Island, a key to control for the St. Lawrence River, as well as the Hudson Bay. The closure of the port of Dunkirk was demanded, which gave the dominion of the Channel and of the North Sea. They recognized the succession in England, and the balance of power in the continent was maintained with the separation of the Spanish and French kingdoms. Spain ceded to England, Gibraltar and Minorca, decisive for navigation between the Mediterranean and the Atlantic. Finally, in relation to Spanish America,

(...) England obtained from Spain the “license vessel”, which allowed it to set up its trade in the River Plate, and the seat - exclusive concession of the slave trade to an English company - for thirty years. Thus, England expanded to all Spanish America the clandestine commerce, which until then had been practicing on the basis of the Antillean and New England ports, besides Brazil (Armstrong 2014, 64).

Indeed, some asymmetries were struck in favor of English merchants in certain affairs of the Spanish colonies. It is noted, however, that in the second article of the Treaty of Asiento of 1713 the values to be paid by the colonies to the South Sea Company were denominated in terms of the currency of the Spanish Empire (weight shields)³⁴.

The Seven Years War (1756-63) confirmed British domination in Canada and India, ending French influence in those regions. In general, they stand out: the acquisition of Benguela and the confirmation of Bombay (1757)

³⁴ Treaty of Asiento (1713). Available at: https://archive.org/details/cihm_28677

in India; the conquest of Dominica (1761), Grenada (1763) and Trinidad and Tobago (1762) in the Caribbean; as well as the first occupation of the Falklands (1766) and New Zealand's claim (1769)³⁵.

The Napoleonic Wars allowed England to acquire new colonial territories. They can be mentioned: Sri Lanka (1795-96); Sierra Leone (1787); Malaysia (acquisition of Penang 1786); Malta (1798); The Cape of Good Hope; The maritime provinces of Ceylon; Maurice; Seychelles, and some islands in the Caribbean³⁶.

The historian Eric Hobsbawm summed up the result of English politics in the eighteenth century as follows:

The result of this century of intermittent wars was the greatest triumph ever achieved by any state: the virtual monopoly between European powers, from outside colonies, and the virtual monopoly of naval power on a world scale. Moreover, the war itself - by mutilating Britain's main competitors in Europe - expanded exports; if anything was served the peace was to diminish them. (Hobsbawm 2000, 47).

It can be said that in the wake of these triumphs of England, colonies, naval power and commercial expansion, the pound consolidated the basis of its later and effective globalization.

The Domination of the Indian Subcontinent and Southeast Asia

As seen, the French defeat in the Seven Years War represented the end of the presence of its companies in India, making the English East India Company the dominant foreign power³⁷. In the regions where it was present, in addition to the foreign trade monopoly, the company took control of the already established tax and monetary systems³⁸, but also instituted plundering as a common practice³⁹.

35 Dalziel (2006, 136-137).

36 Dalziel (2006, 136-137).

37 "Thus, Bengal, Bihar and Orissa in the northeast, the Circars North, further down the east coast, Madras within the territory of Carnataca, and Bombay on the west coast, constituted the territories of the British East India Company, in 1765" (Guimarães 2010, 64).

38 "(...) [the Company] did not initially make major changes to the tax system of Bengal, Bihar and Orissa, maintaining the structure of taxation and the form of payment of existing taxes (...)" (Guimarães 2010, 115).

39 Panikkar (1977, 104).

It did not take long, however, for the Company to implement monetary reform with a view to more efficient extortion of the local population. In 1778, the new rupee was introduced as the local currency, which meant “(...) defining the conversion rate of the old into the new rupee, and this was an indirect form of taxation, since now more rupees would have to be delivered to pay taxes due to the government” (Guimarães 2010, 115).

A petition of the time corroborates the perspective regarding the compulsory character of the currency related to the taxation for the organization of an extortion system.

Even more precise is a petition addressed by the great landowners [in Bengal] to the country Council. ‘The warehouses of the English lords are numerous... Hardly any part of Bengal escapes them. They traded... with all kinds of grain, cloth and all the commodities the country could offer. In order to obtain such articles, **they force the peasants to accept their currency**, and having thus purchased by violence those goods, for which they pay almost nothing, **they compel the inhabitants and the retailers to buy them**, at a very high price [in their currency], higher than the markets... Almost nothing remains in the country. ‘ [emphasis added] (Panikkar 1977, 104-105).

From 1805, the Company consolidated its hegemony in India and, in the 3rd Anglo-Maratha War (1813-23), conquered most of the Empire (Maratha). In 1835, the new general government promoted a new monetary reform, creating the silver rupee⁴⁰. Thus, as the central authority, the Company reorganized India’s domestic monetary space and subordinated it in practice to the English monetary space. In the words of Guimarães,

The definition of a single unit of account for the British territories in India will also fulfill the role of facilitating the regulation of the exchange rate between the rupee and the pound through the mechanism of the sale of company bills of exchange payable in pounds in exchange for Rupees. Thus, the same movement that affirmed the supremacy of the company’s rupee over the other currency units in the Indian subcontinent also affirmed **the subordination of the rupee to the currency of the conquering power, the pound sterling** [emphasis added] (Guimarães 2010, 165).

But it was only after the Sepoy Mutiny (1857-59) that the English state took over India’s administrative control and removed it from the Company⁴¹.

40 “(...) which proclaimed a single currency (Act of 1835), the silver rupee, for all territories under the British East India Company (...)” (Guimarães 2010, 163).

41 The Times (1995, 230-231), Panikkar (1977, 107-108) and Guimarães (2010).

From then on “India remained the true dairy cow of England throughout the nineteenth century: it delivered to Britain raw materials which it was then to buy in the form of manufactured goods” (Panikkar 1977, 151). At the center of this arbitrary trade was the pound.

The English rule over India in the nineteenth century had also served as a basis for its projection in the South Asia region, that is, the other strategic areas for siege and containment of the Heartland peoples of which Mackinder later spoke. According to Panikkar,

We have already noted the role that India played in China’s first war. (...) it was from India that the British penetration took place in the Sinkiang (...) in Afghanistan (...). It was also thanks to India that the British annexed Burma, which intervened in Persia, and which in general made their supremacy recognized on the coast of Arabia and the Persian Gulf (Panikkar 1977, 160).

In South East Asia, the English conquered Singapore (1819), Malaca (1824), Hong Kong (1842), Labuan (1846), Lower Burma (1852) and Sarawak (1888)⁴². According to Ferguson,

They had been forerunners of a race in the Far East, swallowing up northern Borneo, Malaysia and a slice of New Guinea, not to mention a chain of islands in the Pacific: Fiji (1874), Cook Islands (1880), New Hercules (1887), the Phoenix Islands (1889), the Gilbert and Ellice Islands (1892), and the Solomon Islands (1893) (Ferguson 2003, 256).

In the case of Burma, after successive failed attempts, the English managed to occupy Rangoon in 1826 and threatened to follow towards Ava. The king of Burma recoiled and negotiated a peace agreement, that involved indemnifications. “Lord Dalhousie, then governor-general, had set himself up for the trouble, and demanded from Ava’s court an indemnity of 920 **pounds**, which Commodore Lambert went to claim in Rangoon with the baggage of six ships” [emphasis added] (Panikkar 1977, 109). Burma has accumulated debts in pounds as a result of its defeat in the military field and has continued to be taxed through indemnities denominated in the currency of the winning power.

The Taking of Oceania and the Partition of Africa

⁴² The Times (1995, 240-241).

Oceania, at first, did not arouse interest. It was only after 1786 that England established a first penal colony in New South Wales, in South East Australia. The City of Sydney, founded in 1788, was designed to protect routes against the French. From then on, the cities of Newcastle (1801), Hobart (1803-4), Launceston (1804), Brisbane (1824) and Albany (1826) were created. It was not long before England in 1829 annexed all of Australia and then New Zealand in 1840, so that by the middle of the nineteenth century almost all Oceania had already undergone the crown (Figure 1)⁴³.

Figure 1: The British Empire after the First World War



Source: Goodlad (2000, 94).

In the case of Africa, before 1880, there were few areas on the African continent that were colonized directly by Europeans. However, by the end of the nineteenth century, almost all of Africa had been conquered and divided between European countries, with the exception of Liberia and Ethiopia. The starting point for this sharing was the West Africa Conference of 1884 in Berlin. Initially, its negotiating agenda was limited to the search for rules to be considered for the occupation of the African coasts and for the navigation of the Congo and Niger basins. However, as a practical result, the process of territorial conquest on the continent began, by establishing as a rule the criterion of effective occupation to guarantee both the territorial domain and the legitimacy of claims of sovereignty.

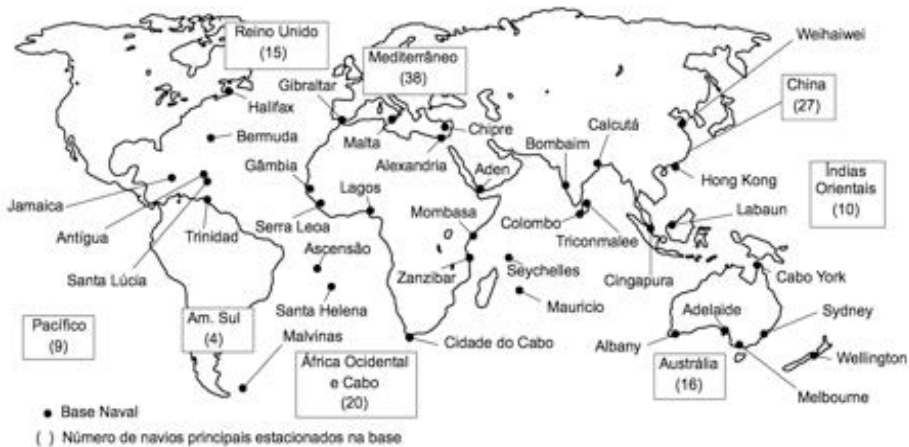
During the period of the Partition of Africa (1880-1913), Europeans

⁴³ Dalziel (2006, 82-83) and The Times (1995, 232).

managed to take direct control over 36 of the 40 colonies born. Under English rule there were, in addition to Sierra Leone, Gold Coast and Union of South Africa: Egypt (1882); British Somalia (1884); Bechuanaland (1885); East Africa British (1888); Rhodesia (1888-1895); Uganda (1890); Sudan (1898); And Nigeria (1914), including forming the Cape Corridor to Cairo. (Figure 1)⁴⁴.

In 1909, according to surveys of some authors⁴⁵, the British Empire had about 25% of the world population (about 440 million people) and a similar proportion of the world's land, 32.5 million km². In comparative terms, the territory of the British Empire was three times larger than French and ten times German⁴⁶ (Metri 2017b). As discussed earlier, taxation and/or exclusive trade with England directly or indirectly imposed on these geographical spaces the need to earn pounds.

Figure 2: British Royal Naval Bases – 1898



Source: Adapted from Ferguson (2003, 262).

As pointed out by the historian Niall Ferguson, the British Empire still had a significant amount of soldiers and naval bases scattered around the world in the late nineteenth century (Figure 2). According to his calculations, there were: 99,000 soldiers in Britain; 75 thousand in India; 41,000 in the rest of the Empire; another 100,000 sailors distributed in strategic positions; a native army of 148,000 men in India; 33 naval stations of coal scattered in

44 Dalziel (2006, 72-73) and The Times (1995, 236-237).

45 Ferguson (2003, 256), Parsons (1999, 6), Hodge (2008, 108) and O'Brien (2002, 209).

46 Ferguson (2003, 256), Parsons (1999, 6), Hodge (2008, 108) and O'Brien (2002, 209).

the world; and a set of naval bases spread across the most diverse ocean corridors and most important seas, thus controlling global navigation and allowing the British military to be effectively present in various geographic boards (Ferguson 2003, 261).

The Debt Cycles of Latin America and the Relationship with the United States

England fostered the independence of the colonies of other countries in Latin America during the 1810s and 1820s, displacing the decadent powers of Portugal and Spain. English bankers acted promptly by lending (in pounds) so as to provide financing for import needs, enabling the process of independence of the new countries and inserting them immediately into the English monetary territory.

In March 1822, an envoy of Simon Bolivar arrived in London responsible for negotiating a £2 million loan to the New Republic of Colombia. In May of the same year, loans in pounds were also granted to Chile, as well as to Peru. The Latin American insertion in the international financial system did not occur without producing a speculative process in the European stock exchanges, mainly in London, with the formation of a bubble from 1824⁴⁷. Its overflow occurred in 1826, subjecting the region to its first debt crisis, once practically all of their countries have become defaulters in English currency⁴⁸. Due to the type of insertion of these national economies in the international system, a chronic tendency of cycles of external indebtedness of the Latin American economies was inaugurated. From independence to World War I, there were four cycles (all in pounds) that resulted in severe economic crises⁴⁹.

The United States, even with its independence in 1776, remained within English monetary territory, no longer as a colony, by the mechanism of taxation and exclusive trade, but because they continued to have a functional

47 Chancellor (1999, 123-125).

48 "In 1822, government bond issues were floated by Colombia, Chile, Peru, and the fictitious 'Poyais' with a face value of £3.65 million; in 1824, there were new issues by Colombia and Peru, plus Buenos Aires, Brazil and Mexico to the tune of £10.4 million; and in 1825, Peru (yet again) plus Brazil, Mexico, Guadalajara, and Central America issued bonds for a further £7.1 million. (...) As investors soon discovered, these issues were at best risky, at worst (in the case of Poyais) a fraud. When fiscal burdens escalated with the wars of independence and subsequent civil wars, a wave of defaults ensued, with all bond issues in default by 1827" (Paolera and Taylor 2012, 2).

49 Paolera and Taylor (2012, 2).

and privileged relationship with England. “(...) the numbers indicate that it was the United States that occupied throughout the nineteenth century the main position within this group of countries which had the advantage of belonging to a kind of ‘co-prosperity zone’ of England” (Fiori 2004, 71).

US foreign trade remained dependent on British banking houses and their lending in pound. “The capital that financed most of America’s foreign trade (...) originated in London. (...) Foreign exchange meant the pound sterling and almost all bills of exchange to finance foreign trade **were drawn in it**” [emphasis added] (Cummings 2009, 23). In addition, the US was the main recipient of British investments in the nineteenth century⁵⁰. Receipt of such capital implied transactions in pounds, which is why in 1834 the United States actually adhered to the gold-pound standard, although its *de jure* membership only occurred in 1900. The Americans built a bimetal monetary system in which the relation of prices between the two metals (gold and silver) ended up making the operation based on gold (the pound) the most appropriate, working in practice as in the gold-pound standard.

The Unequal Treaties with China

The Chinese empire had the largest territory and largest population in Asia at that time, including China, Mongolia, Manchuria, Tibet, and Turk-estan, as well as influencing other areas such as the Korean peninsula (Panikkar 1977, 124).

Before the Opium Wars, in order to acquire the coveted goods of the Middle Empire and resell them in Western markets, European traders, restricted to the port of Guangzhou, had to find something for which there was demand in China in order to obtain the local currency, to buy the coveted products.

Europeans had practically nothing to sell in exchange for the immense quantities of silk, tea, and rhubarb tea they bought. The main problem had always been to find something that could meet China’s needs and avoid the gold exports that had until then served to balance the trade balance (Panikkar 1977, 125).

This is because the pound has no validity in the Chinese political-territorial space. Neither was there a foreign exchange market, or financial centers to offset bills of exchange that involved the two currencies. As discussed ear-

⁵⁰ For more details see: Fiori (2004, 70-75).

lier, the principle prevailed that one commodity pulled another⁵¹.

Initially, the strategy adopted by the English East India Company was based on the cultivation of opium in India and its illegal trade in China. This worked well for a while. "In the first quarter of the nineteenth century, opium became the most important part of European imports in China. In 1818 it accounted for only 17% of British imports into China, in 1833, only 16 years later, it was already half" (Panikkar 1977, 126). England got the local currency receipts that allowed her to buy Chinese goods. In a second moment, due to the Chinese authorities' own reaction against the significant growth of drug trafficking in their territory, the English went to retaliation and the war against China.

In the First Opium War (1840-42), with the Chinese defeat for British forces, it was defined, by the Treaty of Nanking⁵² of 1842, that: the Island of Hong Kong became English; there would be the opening of five ports (Guangzhou, Amói, Fuchou, Ningpo and Shanghai)⁵³; the end of the Co-Hong monopoly (association of Chinese urban merchants who held the mercantile monopoly of Guangzhou); and the imposition of a series of claims denominated in silver dollars, one of the monetary units used by the Chinese Empire (articles 4 to 7 of the Treaty)⁵⁴. This immediately resolved the problem of obtaining the local currency for the acquisition of coveted Chinese products.

The second Opium War followed the same dynamic, with a new unequal treaty, that of Tientsin (1858), where it was defined, among other things: the opening of eleven new ports; the granting of extraterritoriality to European foreigners; and the free movement of traders on Chinese territory. In the case of the indemnities, these were defined in taels, another Chinese monetary unit⁵⁵, in a single article in the treaty signed with England; and Articles 4 and 5 of the treaty signed with France. With Russia and the United States, there were no indemnity clauses involving monetary counterparts. The ratification of the various treaties took place in the Beijing Convention of 1860. In its third article, indemnities were denominated in taels "even higher than

51 "To acquire Asian products at a time when there was no international monetary standard and the pound was not accepted in the major markets of Asia [eighteenth century], the English company needed to take from England products to sell in this market" (Guimarães 2010, 50).

52 Available at: <http://www.international.ucla.edu/asia/article/1842>.

53 "Putting aside the annexation of Hong Kong, the main clause of the treaty, which would then structure all of China's relations with the western powers, was the one that opened five ports to trade 'where foreign merchants could install themselves with their families to carry on their business without restraint and with all hope'" (Panikkar 1977, 133).

54 Debin Ma (2012, 3).

55 Debin Ma (2012, 3).

before” (Panikkar 1977, 140). Since then,

China thus opened a new chapter in its long history, a chapter characterized by its submission and dependence on the representatives of the great powers. Under the treaties they interpreted quite broadly, if by force, these powers arrogated rights, privileges, dignities and prerogatives that accumulated over 50 years, eventually formed a particular code of international laws that controlled practically all aspects of Chinese life (Panikkar 1977, 168).

The Sovereign Debt Securities in Europe and the French Threat to the Pound

By the end of the Napoleonic Wars, in 1815, the British government had issued more than £400 million in bonds, which provided, to some, opportunities of accelerated enrichment. Highlight to the rise of the Baring Brothers and Rothschilds. With the end of the war, they had to seek new opportunities for financial gain. The Barings had to negotiate reparation debts with France, giving them loans in 1817⁵⁶. In their turn, the Rothschilds became the bankers of the Holy Alliance, negotiating financial aid to the central authorities of Prussia (1818), Russia (1822) and Austria (1822), due to the war effort. For the first time in the history of international finance, central authorities have issued sovereign debt securities denominated in foreign currency (or indexed to it, as in the Russian case), that is, in pounds sterling⁵⁷.

First, they introduced the issuance of **sterling-denominated foreign government bonds** to the London market. The bonds issued by the Rothschilds in 1818 and 1822 would become the template for initial public offerings of sovereign bonds for more than a century – a century that would see London flourish as a center for cross-border capital flows on a scale undreamt of in eighteenth-century Holland [emphasis added] (Ferguson 2005, 314).

Because the liquidation of these debt securities was done through the English currency, the issuing states of this type of financial instrument became obliged to obtain it somehow, by submitting themselves to the English monetary territory.

In the second half of the nineteenth century, France attempted to rival England, which was already in an advanced stage of the internationalization

⁵⁶ Landes (2007, 20) and Chancellor (1999, 122).

⁵⁷ Ferguson (2005, 319-325) and Chancellor (1999, 122).

of its currency, when, in 1865, Napoleon III proposed the adoption of another universal value standard and a new uniform coinage. He suggested the construction of an alternative international monetary system to the English project, whose currency of account and universal denomination would be the French franc, based on a bimetallic pattern on gold and silver. In order to do so, he sponsored a Conference in 1865, where he proposed the formation of the Latin Monetary Union, whose initial participants were Italy, part of Switzerland (of French influence) and Belgium. The following year, the Latin Monetary Union was, in fact, created and counted on the accession of the Papal States. In 1867, Greece and Bulgaria also joined, but Germany and England expressed their opposition⁵⁸.

This dispute was only defined with the Franco-Prussian War (1870-71), in which the Germans had English support and financing to defeat the French military forces. The war reparation debts imposed on France in the Frankfurt Treaty of Peace of 1871 were determined in gold franc, a French currency minted with fixed parity to gold, which allowed the Germans to avail themselves of the indemnities to stabilize the adhesion of the milestone to the standard Pound-gold. "The indemnity paid by France to Germany as a result of the French defeat in the Franco-Prussian War was the basis of the mark, the new German currency based on gold [pound]" (Eichengreen 1996, 41). The French issued perpetual debt securities subscribed by the Rothschilds, traded largely outside of France itself. The project of the universalization of the French franc, an explicit initiative against the pound, sunk together with the army of Napoleon III.

The German Crossroads and the Consecration of the Pound in 1871

The German framework followed different paths. At that time, Britain had already dominated important strategic spaces and zones of accelerated accumulation of wealth at a global level, which included the Indian subcontinent, ports and strategic positions of the Chinese Empire, most of the Latin American countries, which already operated within the standard pound-gold, in addition to the US and Canada, Central America, some parts of Africa and Oceania. Faced with this monetary geography, Germany had to choose between: (i) membership of the English monetary territory in order to access such zones, exporting capital, commercial and financial transactions; or (ii) non-adherence to the gold-pound standard, that is, the isolation of its national economy, which actually represented a veto to the possibilities of German ex-

⁵⁸ Chown (1994, 84-88).

pansion. In this context and according to Bernstein, Germany had to adhere to the pound.

(...) to meet the growing demand for pounds sterling that would be used to pay for the raw materials imported from the provinces of the British Empire. Ludwing Bamberger [summoned by Bismark for the discussions of Peace] (...) made great confession by declaring: *'We choose gold not because gold is gold, but because Britain is Great Britain.'* [emphasis added] (Bernstein 2001, 266).

Germany's entry into the gold-pound pattern after the Franco-Prussian War did not occur without criticism and awareness of its burden on the consequences that would be imposed to Germany. Beilchroder, a German banker, told Bismark that Germany's exclusive (formal) entry into the gold standard would make it dependent on England's gold market, that is, the Bank of England's interest rate manipulation, in other words, policy monetary policy⁵⁹.

On the other hand, the German accession, because of the weight of its economy, already the main European industrial power at the time, dragged with it a large part of the continent's countries, especially those closest to it, with solid commercial, financial and investment relations.

Denmark, Netherlands, Norway, Sweden and the countries of the Latin Monetary Union were the first to adhere to the gold standard. They were all countries close to Germany; all of them had trade relations with the Germans, and the Germany's decision significantly affected each country's economic interest in that group. Other nations followed the same path. (Eichengreen 1996, 43).

As a general result, it can be seen that, at the end of the nineteenth century, the international reserves of most countries were composed of monetary assets, especially the British currency. According to Eichengreen, only the pound corresponded to 43% of the reserves in the year 1899 (Eichengreen 1996, 48). The author also draws attention to the fact that countries "could hold a portion of their reserves in British Treasury securities or bank deposits in London" (Eichengreen 1996, 48). That is, as described earlier, the internationalization of a currency eventually drains resources from other countries

59 "The chief proponent of the gold standard in Germany was Ludwig Bamberger 'virtual founder of the Reichsbank'. He was opposed by Bleichroder, (amongst others) who: '...knew how to appeal to Bismarck on this highly technical issue. In 1874 he warned him that the early introduction of an exclusive gold standard would make Germany dependent on the British gold market, which the British defended by raising rates' (Stern 1977, 180-1)" (Chown 1994, 90-91).

into its national financial system, creating advantages for its national financial institutions.

Conclusion

From the sixteenth century onwards, England ceased to be guided by territorial frontier disputes on the continent and began to focus on the preservation of the European balance of power and its projection overseas. From the sixteenth century onwards, England ceased to be guided by territorial frontier struggles on the continent and began to focus on the preservation of the European balance of power and its projection overseas. Its new geostrategy gave priority to positions on the globe to the detriment of territories on the European continent. It allowed England to build a Colonial Empire, whose effect was also to expand the area of circulation of the English currency, once these areas started to have the need to earn it in order to either make viable the payment of taxes to the crown, or to purchase imported products derived from commercial exclusiveness.

Furthermore, through the use of its military power, England was able to compel other independent nations to be formally inserted in its monetary territory, or through agreements of economic nature or the domain of strategic areas.

Thus, the pound sterling became the currency of quotation, liquidation and reserve of value for the entire international economic system, especially after the Franco-Prussian War in 1871. The rise of the pound as an international reference currency was not due to credibility or reputation of its authorities, much less the choice of agents operating in the most diverse international markets. It was, however, a construction of power, associated with the conquest of a colonial empire, commercial monopolies, strategic positions to the accumulation of power and wealth.

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ABSTRACT

The purpose of this paper is to analyze the historical process of ascent of the pound sterling to the condition of the international monetary standard in the late nineteenth century. It intends to show that England, led by its geostrategy, diplomacy and war, was able to build a colonial empire and negotiate favorable international treaties, at the same time that it constructed a monetary international territory based on its currency.

KEYWORDS

British Geopolitics; Monetary Territories; Pound Sterling.

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