

Paper Money

January 1st 2002 saw the biggest ever introduction of new banknotes on a single day. It went smoothly – but the history of paper money is littered with warnings.

In the last few months of 2001, 14 billion brand new banknotes, ranging in value from 500 euros down to 5 euros, were printed by the 12 countries that adopted Europe's single currency. Old money continued to circulate for four to eight weeks afterwards, depending on the country, but department stores and supermarkets quickly made the change to the euro.

The search for a means of exchange is almost as old as mankind. Among the commodities that have been tried are chocolate (the Aztecs), shells (Pacific Islanders), butter and salt (from which the word 'salary' was derived). In Europe after the Second World War cigarettes were used, and in Italy it was common as late as the 1970s to use sweets as small change.

The idea of using paper as money is almost as old as paper itself. The first people to do it were the Chinese, who made the earliest banknotes over 1,000 years ago. However, they soon grew so fond of their invention that they printed far too much and this led to inflation. The most famous issuer of paper money was Kublai Khan, the Mongol who ruled the Chinese empire in the 13th century. Kublai Khan also confiscated all gold and silver, even if it was brought in through foreign trade.

Though explorers like Marco Polo were impressed with the Chinese system, paper money did not succeed everywhere. In Persia, its introduction led to total collapse of trade. By the 15th century even China had more or less given up on paper money.

In Europe, the first issuer of paper money was Sweden. In 1661, Johan Palmstruch's Stockholm Banco introduced the first banknotes. Other European countries soon followed the Swedish lead. One reason for establishing the Bank of England in 1694 was to print paper money so that the balance could be kept in a bank account. The bank is now the longest continuous issuer of banknotes in the world. In France, the Banque Royale was set up in 1718. It was very successful at first, but when people realised that it had issued twice as much paper money as France's total supply of gold and silver, confidence went and the bank collapsed. Nowadays, national banks realise that the quantity of paper money they issue has to be regulated.

The real masters of paper money, however, were across the Atlantic in America. And the father of American paper currency is undoubtedly Benjamin Frank-

lin, the man who features on today's hundred dollar bill. He was a printer who strongly believed in the benefits of paper money.

So who has the best banknotes? Almost everybody would agree that America's should be at or near the bottom. Top position depends, naturally, on taste, although it is often the smaller countries, such as Guatemala, that print the most attractive notes. In Europe, some experts praise the modern designs of countries such as the Netherlands and Finland. Australia is a pioneer in the use of plastic, rather than paper. Over the past decade, most of the countries of Eastern Europe and the ex-Soviet Union have chosen to introduce new banknotes. The most attractive are said to be Estonia's and Macedonia's.

However, the best notes of all are, in many ways, those not printed by central banks at all. For years, the Hong Kong and Shanghai Banking Company acted as the city's central bank. Even today, its notes are much admired. In the collector's market old Hong Kong Bank notes fetch exceptionally high prices – one note from 1867 was sold in London recently for £85,000.