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Dr Graham Birch
Author, *The Metal in Britain's Coins – Where did it come from and how did it get here?*; Director, Sprott Board of Directors, Sprott Inc.

The Metal in Britain's Coins – Where did it come from and how did it get here?

Dr Graham Birch joined the Sprott Board of Directors as Director in November 2019. He has in-depth experience in asset management, especially in precious metals, having been responsible for gold and mining investments at BlackRock in London. He was also a Director of ETF Securities, which pioneered the development of precious metals ETFs in Europe. Graham has just written a book about the historical origins of the bullion in Britain's coins, with lessons in it for those who wish to understand the importance of gold and silver as money in a world of paper currencies. The following essay teases out these lessons.

"*The Metal in Britain's Coins – Where did it come from and how did it get here?*" is available directly from the publisher; www.spinkbooks.com.

Lessons from History

The "shock and awe" economic response to the COVID-19 pandemic from governments around the world will reverberate in capital markets for years to come. But are the ramifications good or bad? In Britain, most of the public is just grateful that swift and decisive action has been taken, few have stopped to question what the likely long-term consequences will be and how it will all be paid for. The uncomfortable truth is that we have already begun to pay, through a significant dilution in the underlying value of our currency and this process is ongoing, which helps to explain why the gold price in pounds has recently made a new high.

When asked, the government tells the public that the money for economic stimulus has been "borrowed". While this is technically true, it is nonetheless a deceit. There are simply not enough real investors willing to buy British Government bonds at zero interest rates with all the associated uncertainty of COVID and a looming BREXIT fiasco. Ultimately it is only the Bank of England who will buy the bonds in the quantities needed. The snag though is that the money the Bank uses to buy the bonds has been "magicked" into existence through expansion of the Bank's balance sheet. Given that the Bank of England is wholly owned by the British Government, it is easy to see, that in effect, the Treasury is borrowing money from itself.

There is no limit to how much money can be conjured up in this way and it is hugely attractive to politicians that the process continues. The alternative prudent approach would be to raise taxes and cut spending once the pandemic is over, but the economy is too weak for this and in any case, it would be political suicide for Boris Johnson, Prime Minister of the United Kingdom. Provided that inflation stays low, it must seem to Boris that current monetary policy is a "free lunch". But is it really that easy?

History can provide the answer and in Dr Graham Birch's new book he examines a two-thousand-year sweep of time from the earliest appearance of gold coins in Britain to the present day. The book addresses some of the basic questions about how Britain gained its wealth and where it came from. Certainly, from a historical perspective, it is true that the current situation where the Chancellor of the Exchequer, Rishi Sunak, can create money at the stroke of a pen is highly anomalous. For most of British history new money supply could only be generated through trade, mining or military action. The contrast between the past and present is stark.

Figure 1. Phillip II, gold stater, 320 BC. These exceptional coins were minted in pure gold and continued to be made long after Phillip's death.

Money through Trade

Gold and silver coins were invented in 610 BC in Lydia, part of modern Turkey. The benefits for trade were profound, and coin use spread quickly through the Mediterranean. Greek and Macedonian coins of exceptional quality and purity were critical to the development of civilisation as we know it (Figure 1). Britain was a latecomer to coinage technology and the first coins did not appear until second century BC. The gold and silver for Britain's pre-Roman coins came through trade. The British Celtic tribes in pre-Roman southern England supplied mercenaries and raw materials to their counterparts on the near continent and developed a coinage system for local use (Figure 2). The designs are Celtic but were loosely based on the Phillip of Macedon gold staters circulating in the Mediterranean region. The gold for those early British coins ultimately came from mines such as Crenides and Mount Pangeum in northern Greece. This bullion was recycled and debased several times before it ended up in England. After the Roman invasion in 43 AD Britain's wealth became dependent on the pay packets of soldiers stationed there. At any given time, Rome stationed three or four legions in Britain and this wealth trickled down to create a consumer boom which raised living standards dramatically. Rome's own gold and silver supply came largely from mines in Spain and some of these, such as the Las Médulas gold mine and the silver mines of Rio Tinto, were large even by modern standards (Figure 3).

Figure 2. Early British pre-Roman gold and silver coins. The bullion was recycled and came into England through trade.

After the Romans left in 410 AD, the unsustainability of Britain's economic model was cruelly exposed and the ensuing economic/political collapse lasted for centuries. How envious the dark ages warlords would have been of Rishi Sunak's ability to produce money from thin air.

Fast forward to the era of European renaissance and discovery. There was a thirst for exploration in Britain, yet the costs were too high for individuals to bear. This led to the formation of joint stock companies such as the Royal African Company, the East India Company and the South Sea Company. These well-resourced businesses, backed by shareholders, could trade globally with rich pickings to be had.

Figure 3. Las Médulas Roman gold mine in Spain. The environmental destruction is still evident. Source UNESCO.

The Royal African Company set up forts throughout West Africa where it could sell English weapons, textiles and metalware to the African chiefs in exchange for gold. The English never dared venture far inland and so never saw the strategically secret gold diggings located in what is now Ghana. To enhance profitability of voyages the ships didn't always go straight back to England once the merchandise was sold. Instead, the Royal African Company bought slaves locally which were then trafficked to the Americas/Caribbean in exchange for tropical goods such as sugar. This trade became known as the "Bloody Triangle" and the unspeakable cruelty involved still resonates today. Large amounts of West African gold were brought back to England and coins minted from this metal were distinguished by an elephant below the King's bust (Figure 4). The elephant charmed the public and the coins became known colloquially as "guineas". The slave trade is no more but in some respects the merchant trade continues. Little of Ghana's gold output remains in the country, most is exported in exchange for manufactured goods.

Figure 4. James II Guinea. The elephant logo beneath the bust shows that the gold was supplied by the Royal African Company.

The East India Company ("EIC") was formed by Elizabeth I to exploit the trading opportunities in India and China. Exotic textiles and spices were highly prized back in Europe and there were huge profits to be had, especially given that the EIC had a monopoly on the trade. What made the trade super-profitable though, was a remarkable precious metals arbitrage opportunity. The import of huge amounts of silver into Spain from South America had distorted the markets and the gold to silver ratio in Europe was around 14 to 1 whereas in China and India it was less than ten to one. This differential spelt almost risk-free profits and meant that the EIC was constantly exporting silver and importing gold into Britain. The Company sent some of this gold to the Royal Mint to be struck into guineas, marked with the corporate logo under the King's head. The EIC was institutionally corrupt and these distinctive coins were most likely used for bribing Government officials.

Figure 5. Five Guineas coin of George II. The letters EIC beneath the King's head tell us that the gold was from the East India Company.

Gold and Silver Mining

Queen Elizabeth I was jealous of the torrent of bullion flooding into Spain from Peru and Mexico. She wanted something similar for England and so much better if it was close to home. She therefore privatised mining rights and allowed the formation of a joint stock company to exploit the British mining opportunity. This worked and by the seventeenth century, entrepreneurs such as Sir Hugh Myddelton and Thomas Bushell had applied new mining and smelting technology to develop underground silver-lead mines in Wales which supplied silver to the Mint. Coins made from this bullion carry a plume to signify the origin of the metal.

Figure 6. Charles I silver threepence minted in Aberystwyth from Welsh mined silver.

When the Civil War broke out in 1642, Bushell single-handedly provided the King with the finances for his army, utilising the silver mined in Wales together with metal "borrowed" from rich people and Oxford colleges. Bushell lacked access to gold and so to mint high denomination coins he had to "go large" striking silver pounds weighing over four ounces each, the largest circulation of coins ever seen in Britain.

By the start of the eighteenth century there was a thriving "junior" mining industry in Britain with companies such as the "Mine Adventurers" providing exploration sizzle and speculative profits (Figure 7). Todays' investors would recognise the style of the promotional pamphlets published by these companies, some of which proved to be exaggerated, perhaps even fraudulent.

Figure 7. Coin minted in 1698 with Welsh silver supplied by the "Mine Adventurers" a junior exploration-development company. The tactics used by this promotional company would make even a modern mining entrepreneur blush.

By the nineteenth century, the monetary needs of Britain's Empire were immense and as luck would have it the Commonwealth territories provided the answer. Gold rushes in Australia, Canada and South Africa supplied vast gold wealth to Britain, cementing London's position as the world's premier financial centre. This gold was minted into hundreds of millions of sovereigns. One out of every twenty ounces of gold mined throughout world history was struck into these iconic coins. Eventually, it became clear that the sovereigns were just as usefully made close to the mines; there was no need to ship all the raw gold back to London. For checking purposes, the Royal Mint hid small letters on the coins to show where the gold came from; for example S for Sydney, P for Perth and C for Canada.

Captured Gold and Silver

In the sixteenth to eighteenth centuries, Europe's money supply was dominated by bullion from the Spanish colonies and the treasure ships which brought it across the Atlantic were tempting targets. England's first attempt to capture bullion came on Sir Francis Drake's circumnavigation of the globe in 1577-80. This was a privately financed expedition with Queen Elizabeth I as a shareholder. Drake's voyage was spectacularly successful and the Queen's share of the booty was sufficient to pay off all of England's foreign debt leaving £42,000 left over which Elizabeth used to make investments in trading companies. The economist John Maynard Keynes used this example to demonstrate the power of compound investment. He noted that by paying off England's external debt Queen Elizabeth put England on a firm footing. The £42,000 remaining was folded into the East India Company. The profits of this company were the foundation of Britain's subsequent international reserves. Keynes calculated that by 1930, every £1 invested by Elizabeth in 1580 had now compounded to £100,000.[1]

Figure 8. The letter "C" above the date on this sovereign shows that it was minted in Canada from Yukon gold.

For numismatists, one of the favourite captured treasure stories dates to 1745 when two French ships were seized by the privateers *Duke and Prince Frederick*. These ships were part of the "*Royal Family*", a fleet of warships licenced by the British Government and financed by wealthy English investors. The *Duke and Prince Frederick* engaged the *Louis Erasme*, *Marquise D'Antin* and the *Notre Dame de Deliverance*. The last of these was badly damaged in the encounter and escaped, only to be subsequently captured by the Royal Navy in Nova Scotia.

Figure 9. Gold and silver coins dated 1746 made from captured bullion. The word LIMA below the King's head represents the origin of the metal.

The ships captured by the *Royal Family* were carrying eighty tonnes of gold and silver, valued at £710,000. The third ship was carrying thirty tonnes of bullion. In today's money, the cargo was worth $400 million. This plus other treasure captured around the same time boosted Britain's GDP by 4-5%. The *Royal Family* privateers loaned the money to the Government which was strapped for cash at the time. Coins minted from the bullion were specially marked with the word LIMA (the source of the bullion) as a form of social media and propaganda (Figure 9).

Shipwreck Treasure

The final story in Dr Graham Birch's book tells the tale of a remarkable treasure ship salvage. In 1941, the ship *SS Gairsoppa* was carrying a cargo of silver from India to London, destined for the Royal Mint. It became detached from its convoy and was sunk by a German U-boat off the west coast of Ireland. In 2010, the British Government held a salvage tender to locate and recover the silver. This was won by a U.S. company Odyssey Marine Exploration.

Odyssey quickly identified the wreck location but discovered that it was lying at a depth of 4,700 m, nearly a kilometre deeper than the Titanic. In a challenging engineering feat, the company used robots to cut through the steel of the *Gairsoppa* and retrieve the silver, 48 tonnes in 2012 and a further 61 tonnes in 2013. Some of this silver was then minted into bullion coins by the Royal Mint, 70 years later (Figure 10).

Figure 10. Silver bullion coins minted from metal salvaged from the *SS Gairsoppa* treasure ship.

Extraordinary Efforts

These and other stories in *The Metal in Britain's Coins* serve to highlight the extraordinary efforts that were made to bring wealth into Britain. When a country's currency is on a precious metals standard it takes blood, sweat and tears to create new wealth. Gold and silver cannot be conjured up from thin air, they have to be earned and therefore bullion is a bedrock of value.

Although we think of quantitative easing ("QE") as a modern phenomenon, in fact its been going on to a varying extent ever since Britain came off the gold standard in 1931.

The beginning of the end for gold and silver as currency metals came a bit before this with the onset of the First World War. Within days of the outbreak of war, the Government launched two banknotes, the pound note and the ten shillings note, to replace sovereigns and half sovereigns in people's pockets. The Government also issued war loan (Figure 11). This was all aimed at taking gold from private hands and transferring it to a Government stockpile, in exchange for paper.

Figure 11. Poster persuading people to swap gold for War Loan. Few realised that it would be 100 years before the final repayment was made. Parliamentary War Savings Committee.

By the summer of 1915, gold had become a rare sight and by the end of the war almost all the gold that had been circulating in Britain, 732 tonnes, had been withdrawn (£33 billion in today's money), swapped for banknotes or War Loan. This was a fantastic "trade" for the Government and people were shamed into it by politicians. David Lloyd George, the wartime Chancellor of the Exchequer knew that gold was "ultimate money" and he summed it up very well; "*Anyone who, from selfish motives of greed or from excessive caution or cowardice, goes out of his way to attempt to withdraw sums of gold and appropriate them to his own use – let it be clearly understood that he is assisting the enemies of his native land, and he is assisting them more effectively probably than if he were to take up arms.*"

Figure 12. Canadians swapped these coins for paper to help Britain's war effort. It wasn't a good swap from a financial standpoint.

With hindsight, we now know that demonetising gold was the first step on the long and rocky road to our own deplorable monetary system.

How Did the Swap of Gold for Paper Turn Out?

Economists today ponder the consequences of the latest aggressive QE, wondering whether it will lead to inflation when balanced against the deflationary aspects of COVID-19. But looking at this process over the short term is wrong, instead we should look at history to evaluate the long-term effects of money printing. There is no better starting point than to review how sterling has fared since sovereigns were withdrawn by Lloyd George and replaced with pound notes. It's not a pretty sight. Exactly one hundred years ago it was still possible to swap a pound for a sovereign or a sovereign for a pound. Today a sovereign costs £360 so over the span of one long lifetime sterling has depreciated against gold to by 99.7%, almost a wipeout. Other currencies have fared similarly. Canadians, who were also asked to swap their $10 and $5 gold coins for paper at the same time, have done a bit better than the British suffering only a 99.1% drop in their currency against gold. With numbers as stark as these we can have no confidence that the pattern is going to change, gold seems certain to outperform sterling and any other paper currency. And now, there is no offsetting interest to make holding currency any more palatable.

In the first eight months of 2020 the COVID-19 crisis has forced Britain to issue a record £385 billion of bonds. Some £300 billion of this was backed by the Bank of England's bond purchase programme. Britain's 2020 net new borrowing is set to exceed £400 billion and the figure could be much higher than this if COVID-19 develops a second wave. So, for both institutions and individuals the lessons from history are clear, modern cash is a very poor investment and its especially poor when the pace of money printing is as high as it is today.

About Sprott

Sprott is a global alternative asset manager with a defining focus on precious metals and real assets investments. Through our subsidiaries in Canada, the U.S. and Asia, Sprott is dedicated to providing investors with world-class investment strategies that include exchange-listed products, active equity strategies and highly-specialized real asset investments. Our deep sector expertise creates investment and financing solutions unparalleled in the industry.

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[1] Economic Possibilities for our Grandchildren. JM Keynes 1930.

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