The Rise of the Spanish Silver Real

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Abstract

The Spanish silver real, or eight reales, dominated international financial markets from the sixteenth to the eighteenth centuries. This article explores the history of the real and defines the factors contributing to the coin's rise as the premier international currency. While Spain's monetary policies and wealth of silver bullion were instrumental in the real's rise to ubiquity, the demand for dependable silver currency in Asian trade markets assured international demand for the real long after the Spanish Empire entered its decline.

Introduction

Looking back on history, one can easily identify particular currencies that rose to prominence and became the preferred global currency. What is it about a currency that motivates both allies and enemies alike to seek after it and prefer it over their own currency? In this article, I will investigate the case of the Spanish silver real or eight reales, which some have called "the world's most famous silver coin" (Pond 1941, 12). From the sixteenth to the eighteenth centuries, the real dominated the international financial market and was the most sought after and trusted coin in the world. I seek to explain this phenomenon.

Generally a currency prospers simultaneously with the nation that controls it, but that was not the case with the real. According to Dennis Flynn, the pinnacle of the Spanish empire was in 1580 (Flynn 1982, 139) and from then on the empire steadily weakened until it lost its position as a great power in the mid-seventeenth century (Elliot 1961, 52). During its decline Spain suffered from an abundance of ultimately overwhelming difficulties. These included the burden of administrating an empire larger in area than the Roman empire at its peak, the massive strain and
expense of numerous wars, the depopulation of the mother country as a result of emigration to Spanish colonies and the expulsion of the Moors, the invasion of foreign goods into the domestic economy, poor government financial administration, and Spain's over reliance on precious metals for wealth (Chapman 1948, 335-36).

The real persevered as the primary international currency for another two hundred years despite the Spanish empire's collapse and continued weak domestic economy. How is it that a country with countless domestic economic flaws could support such a currency? I propose that a weak domestic economy and a strong international currency need not be mutually exclusive; in fact, some of the policy choices that most hurt Spain's home economy simultaneously helped the real gain international distinction. Once the real had been propelled into international circulation, it became virtually independent of Spain due to strong international demand for it.

To further examine the position of the real I will establish the historical background of the Habsburg Spanish Empire to illustrate the conditions of the empire and continent in which the real originated. Next I will offer a historical overview of the origin of the real, how widely it was used, and when it ceased to circulate as an accepted currency. I will then address how and why the real became the preferred international currency. I will also discuss the critical role China played in the real's rise in South East Asia, Europe, and the Americas. Finally I will return to the questions posed earlier and expound on the reasons for the real's long life of success.

Historical Background on the Habsburg Spanish Empire

The struggle of numerous kingdoms to rise to continent-wide power and attain both political and religious dominance characterized sixteenth-century Europe. Paul Kennedy explains that this struggle for European predominance signaled a change in the nature of warfare in Europe from regional conflicts to large-scale international contentions. He attributes this change to two main factors: first, the Reformation, which divided Europe between the North and the South and between middle-class city dwellers and the lower feudal orders; second, the rise of the Habsburgs, whose possessions formed a "network of territories which stretched from Gibraltar to Hungary and from Sicily to Amsterdam" (Kennedy 1989, 32).

The Habsburgs secured the position of Holy Roman emperor and thus gained considerable influence in European affairs. Nevertheless, their
most effective means of increasing in territory and power was through strategic marriages. Through the arrangement of such marriages Maximilian I of Austria brought the Habsburgs the inheritances of Burgundy, the Netherlands, Hungary, Bohemia, and, of greatest consequence, Spain. By 1526 Maximilian's grandson, Charles V, was Holy Roman emperor and inherited the rule of these newly acquired kingdoms (Kennedy 1989, 32–33).

Despite the heterogeneous composition of the Habsburg Empire and the resultant difficulties in maintaining their unified domain, the empire's neighbors took the threat of Habsburg power seriously. Habsburg lands encircled the French state, which dedicated itself to checking Habsburg power. Habsburg expansion also distressed the German princes who had fought diligently to restrain the Habsburgs from exercising power within German territories. The popes were also critical of the increasing Habsburg power (Kennedy 1989, 33–34). With such a wide range of enemies, no amount of territory or political clout could assure the Habsburgs would become victors in the battle for European predominance.

According to Kennedy, the Reformation instigated religious clashes which turned political animosity into bloody hostility. Due to Habsburg monarchs' staunch defense of Catholicism, political power and religious matters were inseparably connected, and thus the divisions of the Reformation spilled into the political arena (Kennedy 1989, 33).

In the mid-1500s, the Spanish Habsburgs were forced to defend their Italian territory against a series of attacks by the French. Between 1520 and 1550, Francis I of France waged war against Spain despite repeated defeats and treaties. Charles V had sufficient resources to defend his territory against the French, but due to his position as Holy Roman emperor he had additional enemies with whom to contend. Among those foes the most formidable were the Turks from the Ottoman Empire, who threatened Charles V on many fronts. The empire's inland territories were in danger of attack by forces advancing from the Hungarian plains, and Spain and Italy were vulnerable to attacks by sea. Charles V also met much difficulty in Germany, where the Protestant Reformation had destroyed all political stability. Finally, Spain had revolts in the Netherlands to deal with in what is now known as the Eighty Years War (Kennedy 1989, 34–38).

In addition to outside threats, the Habsburgs strained themselves by engaging in offensive actions to expand their territory. In 1580, Philip II
annexed Portugal along with its colonies. In response, England deter-
minded to check Spain’s power by supporting the Dutch rebels in the
Netherlands. Thus what had begun as a local rebellion became an inter-
national struggle for power; in time, Dutch and English privateers ex-
tended the fighting to fronts as far away as West Africa and the Caribbean.
In addition to the Portugal offensive, in the 1590s Spanish armies invaded
France in a campaign that lasted nearly a decade.

In 1598 the constant warring between Spain and its enemies began to
subside with the Peace of Vervins; Spain agreed to refrain from interfering
with France. In 1604 Spain and England agreed to cease fighting. Five years
later Madrid negotiated a truce with Dutch rebels heralding a short-lived
peace (Kennedy 1989, 34–38).

In 1618 another wave of wars swept the continent. Within Germany
the rivalry between the Protestant Evangelical Union and the Catholic
League had been intensifying for a decade, and because of many outside
interests “It appeared as if most of the States of Europe were lining up for
a final settlement of their political-religious antagonisms” (Kennedy 1989,
39). The Protestant Bohemian states revolted against Ferdinand II, the
new Holy Roman emperor, and thus began the Thirty Years War of
1618–1648. Germany, the Netherlands, France, and England all joined in
the conflict. Even after the Treaty of Westphalia in 1648, Spain and France
continued to fight for more than a decade. Finally, in 1659, Spain con-
ceded to peace and signed the Treaty of the Pyrenees, which signaled the
end of Habsburg power in Europe (Kennedy 1989, 39–40).

The aforementioned political conditions of Europe during the
fifteenth and sixteenth centuries greatly affected the political and economic
stability of Spain both domestically and internationally. Now I will examine
how Spain’s stability affected the rise of the real.

Historical Overview of the Spanish Real

The real was first minted in the fourteenth century under the direction
of the King of Castile and Leon, who was known as Pedro the Cruel (Pond
1941, 12). However it was not until 1497 when Ferdinand and Isabella
initiated monetary reforms, called the Pragmática de Medina del Campo,
that the real was established as a unit of account in Castile and Aragon.
Under the new system the maravedi was the basic unit of account. The
silver real was equivalent to 34 maravedis, and 375 maravedis equaled
the gold *excelente* (Sumner 1898, 608). The *real* was further divided into eight fractions, hence its alternative title, the *eight reales*. Although other coins such as four *reales* and two *reales* were minted, they were merely fractional coins of the eight *reales* (Carothers 1930, 27).

John Porteous boldly claims, "The Pragmatic of Medina del Campo was one of the best timed monetary reforms ever made." Spain could not have foreseen the impending inflow of bullion from the Americas, yet the kings reformed their minting system in a manner that prepared it to handle a massive influx of bullion. As Porteous goes on to note, "By providing from the start for the issue of indefinite multiples of . . . the *real*, they met the demand for larger coins which a big influx of precious metals was bound to create" (Porteous 1969, 153). The previously incompetent Spanish monetary system was replaced with one adequate to meet the needs of the forthcoming Spanish Empire. When Spain began receiving massive flows of Spanish-American bullion, it was fully equipped and prepared to increase production of the silver *real*.

The *Pragmatica* established the organizational framework to begin regular minting of the *real*, but other factors initiated the increased minting: Portuguese voyages to Asia revealed Asia's great demand for silver, and Spain's discovery of America provided a seemingly unlimited supply of the precious metal. In what would turn out to be a pivotal intersection of events, the demand for Spanish silver increased almost simultaneously with an increase in its supply (Busschers 1999, 10–11). The reform of 1497 established the *real* as a unit of account and prepared Spanish mints to cope with the dawning invasion of Spanish-American silver.

How far did the *real* spread as an accepted currency? J. Busschers quotes a scholar as saying, "In worlds [sic]/history, no coin whatever, has got so wide spreading over both the hemispheres. From the Gobi desert to the banks of the Amazon and the Hudson, and from the Great Chinese wall to the Australian continent, this piece is prevalent" (cited in Busschers 1999, 50). One cannot dispute that the *eight reales* earned its title as an international currency. Throughout its life it took on various appearances as successive Spanish kings altered its design and occasionally its weight and value, but its popularity in all corners of the earth endured regardless.

In the Western Hemisphere the *real* dominated as the primary currency in all of Spanish America, which included most of South America, all of Central America, and much of the Caribbean. The *real*, or *peso*, as it was
known in much of Spanish America, prospered in these areas until each country gained its independence during the nineteenth century and began minting national coins. Even so, the present currency standards of all Central and North American countries are derived from the real (Carothers 1930, 22). For instance, after independence Mexico modeled its “Mexican dollars” or “pesos” after the Spanish reales it was accustomed to minting. The new peso quickly dispersed within the real’s area of circulation, and the international community either did not distinguish it from the Spanish real or accepted it as an appropriate substitute (Andrew 1904, 321).

The Mexican dollar went virtually unchallenged until the late nineteenth century when Mexico’s silver output dramatically plunged. The United States, Great Britain, and France each attempted to replace the peso’s use in their respective overseas colonies. Each nation independently attempted to “displace the Mexican coins, first by attempting to force its own money into circulation, then by issuing an imiation of the Mexican dollar, and now at last by the proposed adoption of a gold “exchange standard” (Andrew 1904, 342). It took many failed attempts for the nineteenth-century great powers to displace the Mexican dollar in their own domestic economies and throughout their colonial possessions. Although the Spanish government did not mint the Mexican dollar, its success is attributable to the prestige and stability of the real.

In the English Colonies, despite the official currency of English pounds, most coin payments were made in reales. After American independence, Congress “declared the dollar [the American term for peso or real] to be the ideal monetary unit for the United States,” and it continued as legal tender in the United States until 1857 (Andrew 1904, 326). The real also prospered in Europe, particularly in countries interested in trade with South East Asia and China, “the most important area of circulation” for the real (Busschers 1999, 93). The Chinese came to trust the eight reales to the extent that they would not accept substitutes even if those coins’ weight and value exactly equaled that of the real. With the advantage of such confidence, the real maintained a stable position in the Chinese economy until 1914 when it was replaced by a Chinese silver dollar called the ‘Yuan Shi Kai Dollar’ or simply yuan (Kann 1928, 159).

The real freely circulated throughout most parts of the globe and was the predominant currency in nearly the entire civilized world from the late
fifteenth century into the nineteenth century. Having established that, I will now turn to an explanation of the rise of the Spanish real as the international standard.

Rise of the Spanish Real as an International Currency

Worldwide demand for silver dramatically increased in the mid-sixteenth century as Europe experienced a liquidity crisis and China entered its “silver century” (Von Glahn 1996, 113). Fortunately for Spain, the discovery of huge amounts of silver in its American colonies coincided with this worldwide surge in demand for silver. This simultaneous increase in demand and supply of silver was a necessary precondition for the real to emerge as an international currency. Were it not for the Chinese demand in particular, the real would not have attained nor maintained its international status. As the global demand for silver began to change, Spain instigated domestic economic policies that concurrently crippled its economy at home and thrust the real into international usage. The real began circulation in the European community and eventually made its way to North and South America, South East Asia, and China. In time international demand led by China became so great that Spain's only task in maintaining the real was to offer the world a steady supply of the coveted money.

The real's rise was predicated upon a worldwide increase in demand for silver. Busschers explains that around the time Spain began minting the real, gold coins “were the most important coins in international trade” (Busschers 1999, 11). At the time, Europe heavily traded with the Arabs who brought oriental products from the East. However, when Portuguese explorers made their way to India in 1498 they soon found that local merchants eagerly accepted silver and rejected gold. This change in monetary priority was due to the fact that “Gold was plentiful in the Indies, whereas silver was in demand there” (Porteous 1969, 142).

Portuguese trade thus created two new markets for silver, an Asian market that demanded silver currency for transactions, and a European market eager for funds with which to trade in Asia. Although this early Asian demand for silver catalyzed a greater demand for silver in the West, it did not have nearly the far-reaching effects that the Chinese demand would have over fifty years later. However, for the sake of chronological clarity I will postpone discussion of Chinese demand until after
having established how the *real* became the coin to meet the early increase in demand for silver.

How did the *real* earn its initial popularity? As mentioned previously, the sudden wealth of silver flowing from the Americas into Spain’s coffers was a necessary precondition for the eventual popularity of the *real*: Spain never could have supported an international currency of such magnitude with solely its domestic silver supply. Before the discovery of Spanish-American silver, there was insufficient silver to supply the world with large volumes of silver coins. Piatt A. Andrew’s observation that more than four-fifths of all the silver produced for use in the civilized world between 1493 and 1850 came from Spanish-American mines illustrates the central role American silver had in increasing the world supply and making the *real’s* international growth possible (Andrew 1904, 322).

Nevertheless, merely having the capability to supply massive volumes of silver coins does not guarantee the international community will accept and seek after one’s currency. Another necessary condition is that the coin has a stable, high value that can compete with other coins in the market. The *real* exhibited these qualities.

The Spanish government maintained the high value of the *real*. Andrew reports that “[Spanish] standard of weight and fineness has suffered comparatively few alterations since their institution.” The *real* underwent no serious debasement until the eighteenth century when it was only slightly devalued on two occasions. Miraculously, between 1497 and the early twentieth century the value of the coin decreased by only 5.9 percent. For a long period while Spain’s contemporaries were debasing their coinage, the *real* maintained a stable value and “their exceptional goodness caused them to be the more eagerly sought abroad” (Andrew 1904, 323–24).

The reason for the Spanish monarchy’s dedication to a stable *real* was largely one of self-interest. Spain well understood the potential for competition from other European states, and were the *real’s* demand to be compromised by that competition, long-run seigniorage, or taxes received by Spain from New World mints, would decrease. Although revenues from seigniorage were not the largest source of Spanish income, they provided a significant and steady flow of earnings to the Crown. Akira Motomura notes that these revenues were particularly vital during times of war as they were generally unimpeded by military conflicts. Thanks to
Spain’s notable emphasis on preserving a strong currency for use in foreign transactions, the Spanish *real* was the most stable and highly valued silver coin of the period.

Although the *real’s* intrinsic value was superior to that of its contemporaries, it still required augmented exposure to foreign markets to increase its circulation and popularity. In 1552, Spain took drastic and domestically unwise measures to battle high inflation caused by massive silver imports. The new policy encouraged cheaper imports while discouraging exports. In fact, it went so far as to ban the export of many goods including “wool and silk textiles, tanned leather and other goods” (Busschers 1999, 22). As a result, wool exports peaked in 1550, and over a short period of time dropped over 175,000 *arrobas* per year, the equivalent 4.3 million pounds (Phillips 1982, 779). Naturally such a policy contributed to domestic economic disaster as local producers were cut off from the international market and faced a flood of new foreign competition. Thus Spain instigated the devastation of its own economy by spending its silver abroad in an attempt to control inflation.

The battle against inflation was not the only cause of silver outflows from Spain: the extravagance of the royalty and overspending on war ensured a steady flow of money out of the country. Porteous suggests, “Both Charles V and Philip II were encouraged to overspend wildly on war and grandiose diplomatic projects” (Porteous 1969, 171–72). Earl J. Hamilton further notes that “Extravagance of the royal family and courtiers, intrigues of Philip II, and disturbances in the Spanish possessions in Italy, Holland, Portugal, Flanders, Germany, Austria, and Africa helped to multiply the financial burdens awaiting Philip III (1598–1621)” (Hamilton 1965, 74). The result of such extensive overspending was massive exportation of silver, and despite the steady flow of wealth from the Americas, Spain plunged into extensive debt.

By 1600 the only domestic concern over inflation was directed towards the locally used *vellon*. When Philip III took the crown in 1599 he faced a national debt that could longer be ignored. His predecessors, Charles V and Philip II, had been committed to maintaining “sound money” and had managed to withstand pressure to use debasement as a means to increase government revenues. Philip III, however, lacked the strength to resist political pressure to do something about the unbalanced budget. Although he dared not touch the *real* because of potential
international competition, Philip quickly authorized debasement of the *vellon*. The *vellon* is a petty currency originally composed of both silver and copper that was used within Spain among the common people for virtually all transactions (Hamilton 1965, 75). In fact, the Spanish economy was comprised of two nearly distinct markets: one for large-denomination gold *ducats* and silver *reales*, and another for small-denomination *vellones* (Motomura 1994, 106). Beginning in 1599 and continuing throughout the economic decline of Spain, the *vellon* suffered repeated devaluations at the expense of the public (Hamilton 1965, 75).

The first of many alterations to the *vellon* was to re-mint it as a purely copper coin. Less than three years later his Majesty reduced the *vellon*'s weight by half. Later that same year, he increased the fees for coinage and fixed the maximum price for copper. The purpose of these policies was to increase government revenue, and that is exactly what they did. The first and second debasements each increased net revenue by 100 percent, and the fixed copper prices increased Crown revenue by approximately 254 percent (Davies 1961, 94). In the following years the *vellon* was devalued and re-minted on several different occasions, each time accruing profits to the Crown and putting more *vellones* into circulation. Hamilton notes, “These inflationary measures drove *vellon*, which had circulated at or above parity for more than a century, to a discount and evoked bitter criticism from the kingdom” (Hamilton 1965, 75–76).

The purpose of this article does not permit an in-depth analysis of the series of *vellon* devaluations, but the effects on Spain’s domestic economy, and indirectly on the *real*, are of interest. *Vellon* inflation increased the cost of all goods and services in Spain, which prompted merchants to sell to the Spanish domestic market while shunning Spanish export goods (Davies 1961, 95). Once again Spanish producers and merchants faced a situation in which they could not compete with foreign products flooding the market, nor could they sell their products abroad. When Philip IV (1621–1665) took the throne Spain faced the problems of inflation and massive public debt left by Philip III. These strains upon the country were only exacerbated by a worsening of general economic conditions due to increased emigration of young men, heightened international competition from northern Europe, decreased Crown revenues due to the alienation of most taxable income sources, and large commitments of both revenue and manpower to the recently begun Thirty Years War (Hamilton 1965, 79).
Under the reign of Philip III most inflationary problems had been sufficiently controlled that the vellon continued to circulate practically side-by-side with silver at only a small discount. However, the problems under Philip IV, including continued vellon devaluation, soon generated a steep rise in the price of vellon and a premium on silver coins. In 1626 the premium on silver rose to approximately 50 percent, and Philip IV’s attempts to counter the increase were so unsuccessful that by 1642 the premium had risen to 200 percent. Under these circumstances Gresham’s Law, which posits that bad money drives out good money (Britannica n.d), took effect, and silver reales disappeared from circulation in Spain (Davies 1961, 96–98). Spain’s economic struggles boosted the real’s international circulation as many reales previously reserved for domestic use were shifted to foreign exchange.

Even as Spain entered a period of economic disaster, the real began its era of greatest popularity. Early Spanish policies of the mid-sixteenth century designed to stifle exports helped the real embark on its first major campaign abroad. The rest of Europe—particularly the Netherlands, France, and England—benefited from Spanish imports by exploiting the hungry Spanish market. In return, those countries reaped silver, in the form of reales, which compensated for their own domestic lack of silver. Spain’s neighbors welcomed this source of silver, and because of the real’s stable value they generally refrained from melting them down or using them for other non-monetary purposes.

After the real’s initial exposure to foreign markets, Spain’s massive spending on war and extravagance continued to pump silver out of the country, evidenced by the enormous debt accrued during the reigns of Charles V, Philip II, and Philip III. “The flood of precious metals from the Indies, it was said, was to Spain as water on a roof—it poured on and then was drained away” (Kennedy 1989, 55). The Crown’s attempts to remedy the public debt by devaluing the vellon eventually led the price of vellon to skyrocket, which in turn accelerated the drive of silver reales out of the country into foreign markets.

In today’s world it seems counterintuitive that a country could promote its currency abroad by initiating policies that were ultimately detrimental to its domestic economy. We associate a strong international currency with a strong domestic economy, but that was not the case for Spain. On the contrary, were it not for the stifling of exports and encouragement
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of imports, the real's international success might have been delayed. That is not to say that the real would never have risen to become an international currency, but there would had to have been some other mechanism for putting the coin into foreign pockets. As it is, Spain's large volume of imports and expenditures on war and royal extravagance served as the means to introduce the real to the world.

Once significant amounts of reales were circulating internationally and Europeans continued to offer a willing market for them, the real was on its way towards becoming a universal coin. However, the real did not reach its full potential until it expanded beyond the boundaries of Europe. Its first destination on foreign land was Spanish America. When Spanish settlers began establishing the empire in the New World they encountered several problems concerning the use of currency. American indigenous peoples did not use coins as a medium of exchange but rather used other goods such as cacao beans, seashells, and mother-of-pearl, as well as forms of commodity money (Seeger 1978, 168). In the New World the real and other Spanish coins were established as the official currency, but the money supply was limited to the small amounts that settlers brought with them from Spain. Due to the severely deficient money supply, Spanish settlers had no choice but to use gold and silver as commodity monies and trade with the natives according to the weight of the precious metals. As the Spanish population in the New World grew, a lack of currency continued to plague the settlers (Aiton 1931, 199).

After years of petitioning the royal crown in Spain, the Queen finally approved a royal cédula on 11 May 1535 which authorized the viceroy of New Spain to organize a royal mint (Aiton 1931, 201). Coins were to be minted in accordance with the regulations established by the Catholic kings in Spain and were to strictly adhere to the weight, size, and design of the existing Spanish coins. Furthermore, the minting of gold coins was expressly forbidden (Seeger 1978, 177–78). Since the natives would not accept copper coins, the New World mint exclusively produced silver coins (Porteous 1969, 170).

The exclusive and abundant minting of silver coinage in Central and South America, along with the decree that the coins be accepted as legal tender throughout the Spanish Empire, contributed to the international success of the real. Without competition, the real dominated the Spanish-American market as the most sought-after coin. The most significant

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reason for the real's spread across Spanish America is that all peoples of the Spanish empire, indigenous and ladino, were required to accept Spanish coins as legal tender. In other words, Spain forced the real on its colonies and the new mints on the continent made the coins readily available to the population. As local economies began to expand, the demand for currency increased and use of the real grew (Porteous 1969, 225).

Spanish domination of Central and South America, along with the demand created by Spanish settlers, facilitated the spread of the real throughout those lands. In North America the driving factor behind the real's spread to the British colonies was the shortage of coins. For most countries, the late sixteenth and early seventeenth century was a time of irregularity in type and quantity of coins. Because of constant fluctuations in bullion supply and the lack of uniformity in the type of coins available, "every country encouraged circulation of whatever foreign coins it could entice into its territory" (Carothers 1930, 18). The American colonies suffered from a severe shortage of coins and the people eagerly procured coins of any country through trade. Although coins from most Western European countries circulated in the colonies, the predominant coin was the Spanish real, which the colonists referred to as the "Spanish dollar" (Martin 1977, 1009). The colonies received the largest quantity of reales from their prosperous trade with the West Indies. Additional Spanish coins migrated to the colonies from European settlements along the Gulf of Mexico and pirates frequenting the Atlantic ports further supplemented the supply (Carothers 1930, 22).

Throughout the eighteenth century the colonists continued to depend on Spanish dollars to provide an adequate supply of coins. As previously mentioned, the colonies had become so accustomed to reckoning in terms of the Spanish dollar that when the Continental Congress determined to establish an official currency standard throughout the country, the most viable option was to base the system on the Spanish dollar (Carothers 1930, 38). The new system maintained American dependence on the Spanish dollar. During the next century, Congress made several attempts to eliminate foreign coins from circulation, but the large quantity of Spanish reales in circulation and people's historic use of the coin led to its continued use until 1857 (Martin 1977, 1010-20). The American account demonstrates one situation in which the real reached a country through trade in response to demand for silver coinage. Once
the real began circulating, the common people became highly trusting of and dependent upon the coin. A similar phenomenon occurred in China. How did the real make its way to China? Busschers explains the possibility that some reales arrived in China via Portuguese trade routes to India. The Portuguese empire, which relied on the real, regularly traded with India and China (Boxer 1970, 459). Busschers estimates that in the second half of the sixteenth century, Portugal exported some 750,000 reales annually to Asia (Busschers 1999, 26). Until the late sixteenth century few reales made it to China through that route because the Portuguese took advantage of an embargo prohibiting Chinese sailors to trade with Japan and used Japanese silver to make a large profit on their trade with China. Since the Portuguese primarily used Japanese silver to trade with China, most of the reales went to India, where they were melted down and converted to local currency (Boxer 1970, 460). Nevertheless, estimates indicate that during the late sixteenth and early seventeenth centuries between 6,000 and 30,000 kilograms of Spanish silver were shipped annually to Macao, China.

Despite Portuguese trade, the real did not substantially penetrate South East Asia and China until Spain began trading there. Beginning in 1565 Spain regularly traded with Manila through a small fleet called the Manila Galleones that traveled between Mexico and the Philippines. The Galleons traded in an interesting cycle: the trip back to Mexico brought Chinese silks and other oriental goods, which were purchased in the Americas with reales. After exchanging its goods for silver, the ship returned to Manila with reales destined to purchase more oriental products that could be sold for silver in America. After a decade of continuing transfer of Spanish-American silver to South East Asia, the Viceroy of New Spain with charge of the Philippines added to the flow of reales by sending 100,000 pesos of eight reales to Manila annually (Madriaga 1968, 59).

The substantial amount of silver flowing from Spanish America to Manila had not yet reached its final destination. Upon arrival in Manila, Spanish merchants used the silver primarily to purchase Chinese goods. Chinese merchants wanted silver and the Spanish wanted exotic oriental products; the result was that Chinese vessels dominated the Philippine market as they searched for and profited from Spanish trade. Between 1611 and 1612, 91.5 percent of Manila's customs revenues came from Chinese vessels (Von Glahn 1996, 123). Chinese dominance of the market
and the fact that Spanish vessels returned home laden with Chinese goods clearly indicates that masses of Spanish silver in Manila were being traded to China. One estimate suggests voyages from New Spain shipped five million *reales* annually to Manila and thence to China. In 1597 alone, an estimated twelve million *reales* reached China via Manila (Boxer 1970, 464).

A third and final route for Spanish-American silver to end up in China came from bullion originally shipped to Seville and thence either legally or illegally sent to Amsterdam and London. Beginning in the 1600s, both the Dutch and East India Companies began transporting some of this silver to South East Asia to purchase oriental goods. Although smaller amounts of *reales* reached China through this route, in comparison to the Spanish–China trade out of the Philippines, it provided a consistent flow of silver to help meet Chinese demand (Atwell 1982, 75).

Now we return to the question of why Chinese merchants so eagerly accepted Spanish *reales*. What created the Chinese demand for the *real*? The Chinese monetary system was based on bronze coins minted by the Ming government, but due to a shortage of bronze, coins became scarce. Consequentially private bronze coins and various forms of silver began to compete with the Ming coin in an attempt to feed the Chinese market's demand for money. After 1600, the Ming state debased its coin, and notwithstanding increased imports of foreign silver, the silver coin exchange rate rose progressively (Von Glahn 1996b, 430–31).

Just as the Chinese state decreased the quantity and value of the official money supply, the demand for money drastically increased due to a "commercial revolution" in China. Von Glahn lists several factors which contributed to the augmented demand for money: the "monetization of public finance as well as private exchange, dissolution of servile social relations and the emergence of free labor markets, regional specialization in agricultural and handicraft production, rural market integration, and the stimulus of foreign trade" (Von Glahn 1996b, 432). These factors increased demand for money throughout Chinese society as more and more people and institutions began engaging in monetary transactions.

As the gap between the money supply and demand for money expanded, silver mining in China experienced a compensation-driven boom. However, in a matter of decades Chinese domestic silver supply waned, forcing the Chinese to look elsewhere to supplement their inadequate money supply. Ironically, it was at this time, the 1530s, that Japan
discovered “abundant silver deposits” which welcomed in what is known today as East Asia’s “silver century.” Despite a ban on overseas trade, Chinese merchants quickly began trading with Japan in pursuit of silver. As time went by, China found other sources of foreign silver, prominent among them the already mentioned Portuguese traders in Macao and Spanish-American silver in Manila (Von Glahn 1996b, 432).

China’s need for money motivated the search for foreign resources, but that does not explain why the Chinese people chose silver instead of other forms of bullion such as gold or bronze. Richard Von Glahn explains, “The source of profit from silver . . . was the high value silver commanded in China compared to other forms of specie” (Von Glahn 1996b, 433). Silver had twice the value in China as it did in Europe: the gold-silver ratio in China was 1:6, while in Europe it was 1:11–12 (Busschers 1999, 24). C. R. Boxer intrepidly states, “This was the basic reason why China remained for so long the suction-pump which absorbed silver from all over the world” (Boxer 1970, 461).

Savvy merchants quickly discovered the profit of trading with countries that placed a relatively low value on silver and then returning to China to reap a hefty arbitrage profit. This practice was so profitable that many merchants went abroad for the sole purpose of procuring silver to sell in China (Von Glahn 1996, 126). Given the premium price silver commanded in Asia, European traders “could buy cheap and sell dear” so long as they had an ample supply of reales (Boxer 1970, 463). Considering this set of circumstances, the flow of silver into China seemed destined to happen.

Though China was interested in silver in general, why did the real in particular become so popular in China compared to other contemporary silver coins? At this time China had an established system of bronze coinage for its official currency, but it used silver as commodity money (Von Glahn 1996, 142). As a commodity, silver was valued according to its weight, and because the real had both high and constant silver content the Chinese quickly accepted it (Busschers 1999, 24). Not only did the real have a high value as a commodity, but it was also readily available due to the high volume of trade between Spanish America and Europe with South East Asia. A further advantage for the real was the fact that it was the first foreign coin to enter China in significant quantities (Kann 1928, 128). These factors combined to produce both wide usage and acceptance of the Spanish real in China.
The demand for the real in China was essential to the real's consistent prosperity for three centuries. Were it not for the massive Chinese demand, the real would have been significantly more vulnerable and likely to fall with the Spanish empire. Since China and most of South East Asia accepted only the real, any nation desiring to participate in the lucrative Asian trade had to acquire a sufficient supply (Busschers 1999, 33).

Until the 1590s, Portugal and Spain dominated trade with Asia. Other European nations eventually began to realize the profitability of trading directly with Asia, and in 1597 the Dutch challenged Portugal's monopoly of the Indian trading route. Two years later England ventured to trade directly with the East. The two nations soon established regular trade relations with Asia, but neither England nor the Netherlands was pleased with their dependence on Spain to supply them with trading coins because the real was scarce and because it was a tactical weakness to be dependent on one's enemy. In 1600 the English attempted to substitute the real with its own silver trading coin, which exactly equaled the weight and alloy of the Spanish real. The Dutch, who suffered most from the real's scarcity, also coined their own real. Unfortunately for both countries, the Chinese rejected both mock-reales (Busschers 1999, 33–34).

Busschers attributes the rejection to two things. First, "because the Spanish coins had been counterfeited by other nations . . . the Asians mistrusted any new coinage" (Busschers 1999, 33). The Chinese had come to so trust the real that even coins of the same weight and alloy were quickly dismissed as suspect counterfeits. Second, millions of eight reales were already circulating in South East Asia, and the amount of new coins supplied by other European nations was insufficient to overthrow the firmly established real (Busschers 1999, 34).

After the Chinese snubbed real substitutes, the international prestige of the real surged. It was then undeniable that if a country wanted to trade with China, it would have to obtain Spanish reales for the transactions. High demand for reales in South East Asia and China boosted demand for the coin in the West to a degree that even the British East India Company made its transactions in China primarily with Spanish dollars. Eduard Kann estimates that between 1710 and 1759 the East India Company alone traded £26,833,614 of silver in the form of Spanish reales with China (Kann 1928, 126–27).
RISE OF THE REAL

Once again we encounter a trend that conflicts with modern-day conceptions of what increases a currency's international demand. Generally one expects that if a nation engages heavily in exporting, its currency will be highly demanded internationally. In this case, however, it was Spain's imports that initially diffused the real throughout Europe, not its exports. By the time worldwide demand for the real began to peak, the Spanish empire was already entering its decline and was not engaging in extensive foreign trade. Although Spanish-American trade initially spread the real to South East Asia, it only indirectly influenced the real's success. Indeed, it was China's tremendous demand for the real and the world's desire to trade with China that made the real the ubiquitous world currency that it was.

Conclusion

The Spanish Empire first introduced the real to the world at a time when its power was unquestioned. However, as time went by and the Spanish Empire's grip on power began to slide, the real continued to prosper. At first glance it is puzzling that the real managed to prosper in spite of Spain's concurrent decline, but upon closer examination one sees that after having achieved a measure of international success, the real's popularity became independent of the empire that produced it.

Spain's economic policies marred its domestic economy but promoted the real's use by the international community. After this initial promotion of the real, it became the universal trading coin and was in high demand throughout the world, irrespective of Spain's position in the world power-system. Chinese demand supported the real's position as any nation wishing to trade with China had to have sufficient reales. China's thirst for silver and its wealth of coveted goods maintained the international ubiquity of the real in spite of Spain's supposed inability to support an international currency in the face of a national downturn.
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Works Cited


