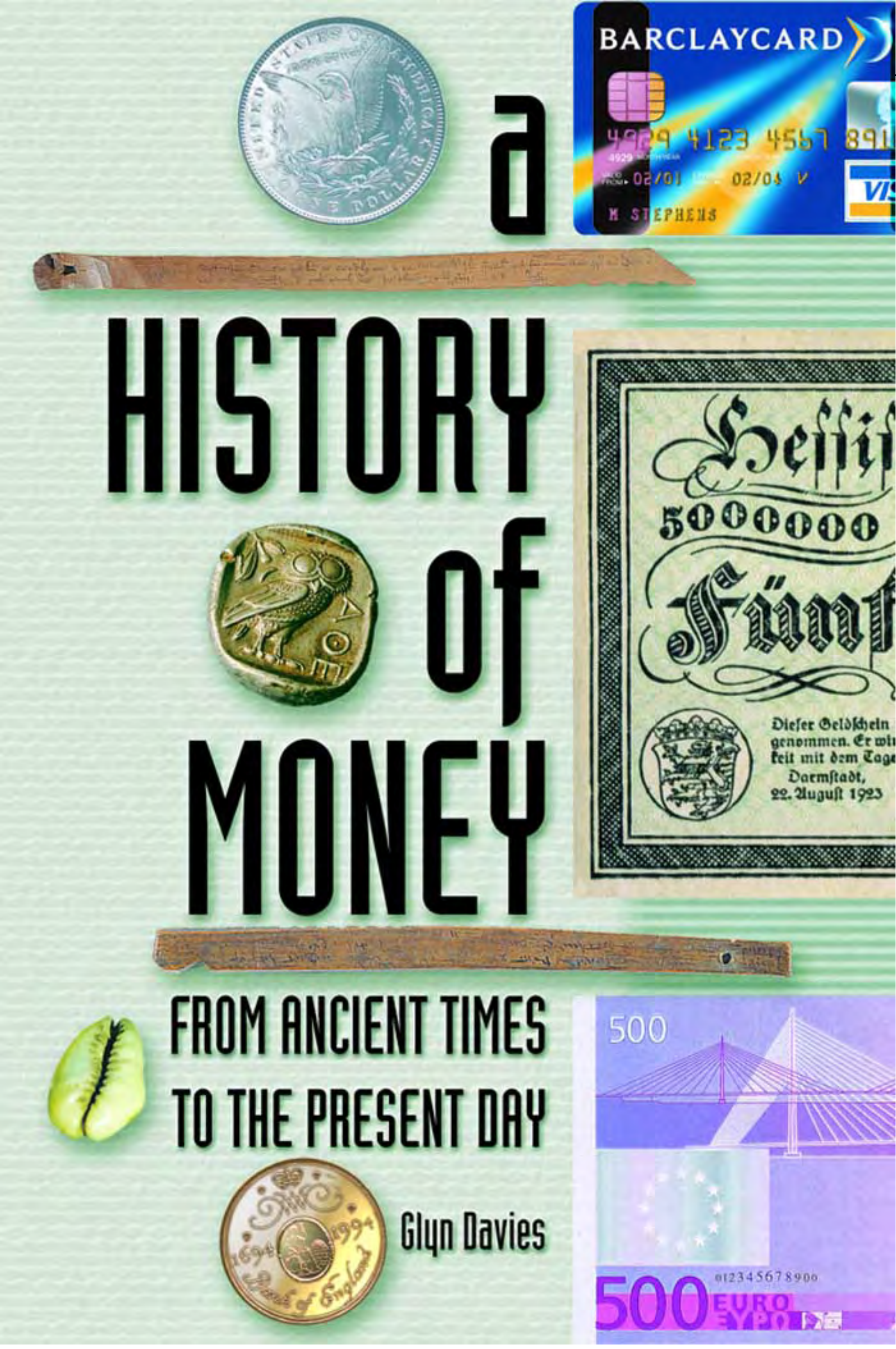
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HISTORY
of
MONEY
FROM ANCIENT TIMES
TO THE PRESENT DAY
Glyn Davies
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A History of Money

From Ancient Times to the Present Day

A History of Money

From Ancient Times to the Present Day

GLYN DAVIES

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Foreword

From earliest times money in some form or another has been central to organized living. Increasingly it shapes foreign and economic policies of all governments. It is synonymous with power and it shapes history in every generation.

Professor Glyn Davies, Economic Adviser to the Julian Hodge Bank Ltd, and sometime Chief Economic Adviser to the Secretary of State for Wales, and then to the Bank of Wales, is an ideal person to write the history of money itself. In his fifteen years as Sir Julian Hodge Professor of Banking and Finance at the University of Wales Institute of Science and Technology, Glyn Davies earned worldwide recognition as one of the United Kingdom's front line economists. Both the CBI and various Select Committees of the House of Commons have sought his help.

For over two decades there has been a unique partnership between Wales's financial wizard, Sir Julian Hodge, and Professor Glyn Davies. The genius of Sir Julian is matched by his intuitive caution in matters financial: it is therefore a high tribute to Professor Glyn Davies that for two decades he has been Sir Julian Hodge's trusted Economic Adviser.

This book is a masterpiece of scholarly research which economists and bankers will find invaluable. Professor Glyn Davies enjoys a rare gift in being able to present the most complicated issues in clear and simple terms.

I declare my personal interest in this book because I have proved the quality of Professor Glyn's work both when I served as Secretary of State for Wales and when I was Chairman of the Bank of Wales.

George Tonypandy
The Right Honourable Viscount Tonypandy PC, DCL,
House of Lords,Westminster
1 March 1994

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To
Sir Julian Hodge LLD
Merchant banker and philanthropist

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First and foremost I wish to thank Sir Julian Hodge for his unfailing support and encouragement. For over a quarter of a century I have been fortunate in being able to observe at close quarters Sir Julian's genius for making money – and for making money do good. As an economist I have particularly enjoyed the opportunities provided by such experiences to analyse how far abstract theories stand up in comparison with the practical tests of the market place. My grateful thanks are also offered to Eric Hammonds, Chairman, and Jonathan Hodge, Director, Julian Hodge Bank Ltd., and to Venetia Farrell of the Jane Hodge Foundation.

To the late and sadly missed Viscount Tonypandy I remain greatly indebted for his typically kind and prompt response in having written the Foreword in his unique, incisive style.

The academic sources on which I have drawn are widely spread over time and space and include, for the more recent decades, colleagues and former students. Only to a small degree can such debts be indicated in the bibliography. To the many librarians who have made essential material easily and pleasantly available to me I am glad to record my thanks, especially to Ken Roberts of the University of Wales Library, Cardiff, and to my son Roy Davies, of Exeter University Library, whose mastery of the Web proved invaluable.

The staff of the Royal Mint and scores of practising bankers, building society executives, accountants and civil servants who have generously given of their time to discuss matters of financial interest similarly deserve my gratitude.

My warm thanks go to Ned Thomas, former Director of the University of Wales Press, to his successor, Susan Jenkins, to Richard Houdmont, Deputy Director, to Liz Powell, Production and Design Manager, and to all the staff, including especially Ceinwen Jones, Editorial Manager, who have worked most expeditiously and with highly commendable skill and zeal on my behalf. Despite such enthusiastic professional assistance any errors remaining are my own.

Finally, the long-suffering and devoted support of my wife, Anna Margrethe, is beyond praise.

Preface to the Third Edition

In our technological age too many agree with Henry Ford's blunt dictum that history is bunk, though he was far from thinking that money was bunk. This ambivalent attitude remains prevalent today in the general approach to economic and financial studies, so that whereas there is a superabundance of books on present-day monetary and financial problems, politics and theories, it is my contention first that monetary histories are far too scarce and secondly that those which do exist tend in the main to be far too narrow in scope or period.

Because of the difficulties of conducting 'experiments' in the ordinary business of economic life, at the centre of which is money, it is most fortunate that history not only generously provides us with a potentially plentiful proxy laboratory, a guidebook of more or less relevant alternatives, but also enables us to satisfy a natural curiosity about the key role played by money, one of the oldest and most widespread of human institutions. Around the next corner there may be lying in wait apparently quite novel monetary problems which in all probability bear a basic similarity to those that have already been tackled with varying degrees of success or failure in other times and places. Yet despite the antiquity and ubiquity of money its proper management and control have eluded the rulers of most modern states partly because they have ignored the wide-ranging lessons of the past or have taken too blinkered and narrow a view of money.

Economists, and especially monetarists, tend to overestimate the purely economic, narrow and technical functions of money and have placed insufficient emphasis on its wider social, institutional and psychological aspects. However, as is shown in this study, money originated very largely from non-economic causes: from tribute as well as from trade, from blood-money and bride-money as well as from barter, from ceremonial and religious rites as well as from commerce, from ostentatious ornamentation as well as from acting as the common drudge between economic men. Even in modern circumstances money still yields powerfully important psychic returns (such as an individual's social rank and standing or a nation's position in the GNP league table), while the eagerness to save or to spend is a fickle, moody, contagious, psychological characteristic, not fully captured in the economist's statistics on velocity of circulation. Thus money, more than ever in our monetarist era, needs to be widely interpreted to include discussion not only of currency and banking, but also savings banks, building societies, hire purchase finance companies and the fiscal framework on those not infrequent occasions when fiscal policy conflicts with or complements the operation of monetary policy. In this regard it is demonstrated that even in medieval and earlier periods these wider aspects were of considerably greater importance than is conventionally believed. There are therefore many advantages which can only be obtained by tracing monetary and financial history with a broad brush over the whole period of its long and convoluted development, where primitive and modern moneys have overlapped for centuries and where the logical and chronological progressions have rarely followed strictly parallel paths.

Anyone who attempts to cover such a wide range inevitably lays him- or herself open to criticisms similar to those inescapably faced by map-makers in attempting to portray the whole or a major part of the globe on a flat surface. If the directions are right the sizes of the various countries become grossly disproportional; attempts at equal areas beget other distortions in shape or direction; while the currently politically correct Peters projection looks like nothing on earth. Similar criticisms relate to the selection of historical material from the vast mass currently available. What some experts would regard as vitally important features may have been glossed over or omitted, while other aspects which they might consider trivial have been given undue attention. Selection from such a vast menu is bound to be arbitrary, depending on the personal taste of the author. Furthermore any claim to complete neutrality and unbiased objectivity is similarly bound to be untenable. Every list of sins of commission or omission would vary, especially among economists . . . six economists, at least half a dozen opinions.

A further point: where one is dealing with a narrower, more manageable period or area it is all the more possible (and highly fashionable) to construct a sophisticated model or theory closely fitting the subject under scrutiny. Conversely, only the most loose-fitting (but none the less useful) garment could possibly cover the variety of models comprising such a wide range as is examined in this book. One such simple theory does, however, emerge: the quality–quantity pendulum; although it must be borne in mind that its repetitional swings become discernible only where a long period of time is taken into consideration.

The first three chapters look at primitive and ancient money and at the origins of coined money and its development up to the fall of Rome. The next two chapters look at the unique disappearance and re-emergence of coined money in medieval Britain, followed by the great expansion of trade and finance in Britain and Europe from around 1485 to 1650. We then trace the development of British money and banking to its dominant position in the gold standard system that eventually broke down in the period from 1914 to 1931, thereafter analysing the monetary controversies during the rest of the twentieth century including the implications of entry into the European Monetary System. The monetary development of the USA (in chapter 9) provides a considerable contrast, moving from wampum to world power in less that two centuries. Only a few of the salient features of money and banking in parts of continental Europe and Japan are sketched in chapter 10 but with some emphasis being given to the closer relationships seen in those countries between financial and industrial companies and the consequences that this might have for a faster rate of economic growth than has occurred elsewhere. Chapter 11 deals with pre- and post-colonial monetary systems, the rise of indigenous banking in the Third World and the vast problems of international indebtedness. Chapters 12 and 13 summarize progress towards a possible universal free market in money, including dollarization, the revolutionary advance of the euro and the controversial Tobin Tax.

Henry Ford, the father of mass production, unconsciously gave the world a powerful push towards the goal of global finance where eventually the colour of everyone's money will be the same. Fortunately, that blissful day has not quite yet dawned.

1 June 2002

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The Nature and Origins of Money and Barter

The importance of money

Perhaps the most common claim with regard to the importance of money in our everyday life is the morally neutral if comically exaggerated claim that 'money makes the world go round'. Equally exaggerated but showing a deeper insight is the biblical warning that 'the love of money is the root of all evil', neatly transformed by George Bernard Shaw into the fear that it is rather the lack of money which is the root of all evil. However, whether it is the love or conversely the lack of money which is potentially sinful, the purpose of the statement in either case is to underline the overwhelming personal and moral significance of money to society in a way that gives a broader and deeper insight into its importance than simply stressing its basically economic aspects, as when we say that 'money makes the world go round'. Consequently whether we are speaking of money in simple, so-called primitive communities or in much more advanced, complex and sophisticated societies, it is not enough merely to examine the narrow economic aspects of money in order to grasp its true meaning. To analyse the significance of money it must be broadly studied in the context of the particular society concerned. It is a matter for the heart as well as for the head: feelings are reasons, too.

Money has always been associated in varying degrees of closeness with religion, partly interpreted in modern times as the psychology of habits and attitudes, hopes, fears and expectations. Thus the taboos which circumscribe spending in primitive societies are basically not unlike the stock market bears which similarly reduce expenditures through changing subjective assessments of values and incomes, so that the true interpretation of what money means to people requires the sympathetic understanding of the less obvious motivations as much as, if not more than, the narrow abstract calculations of the computer. To concentrate attention narrowly on 'the pound in your pocket' is to devalue the all-pervading significance of money.

Personal attitudes to money vary from the disdain of a small minority to the total preoccupation of a similarly small minority at the other extreme. The first group paradoxically includes a few of the very rich and of the very poor. Sectors of both are unconsciously united in belittling its significance: the rich man either because he delegates such mundane matters to his servants or because the fruits of compound interest exceed his appetite, however large; the poor man because he makes a virtue out of his dire necessity and learns to live as best he can with the very little money that comes his way, so that his practical realism makes his enforced self-denial appear almost saintly. He limits his ambition to his purse, present and future, so that his accepted way of life limits his demand for money rather than, as with most of us, the other way round. At the other extreme, preoccupation with money becomes an end in itself rather than the means of achieving other goals in life.

Virtue and poverty, however, are not necessarily any more closely related than are riches and immorality. Thus Boswell quotes Samuel Johnson:

> When I was a very poor fellow I was a great arguer for the advantages of poverty . . . but in a civilised society personal merit will not serve you so much as money will. Sir, you may make the experiment. Go into the street, and give one man a lecture on morality, and another a shilling, and see which will respect you most . . . Ceteris paribus, he who is rich in a civilised society, must be happier than he who is poor. (Boswell 1791, 52–3)

Johnson's commonsense approach to the human significance of money not only rings as true today as it did two centuries ago, but may be mirrored in the statements and actions of much earlier civilizations.

The minority who find it possible to exhibit a Spartan disdain for money has always been exceptionally small and in modern times has declined to negligible proportions, since the very few people concerned are surrounded by the vast majority for whom money plays a role of growing importance. Even those who as individuals might choose to belittle money find themselves constrained at the very least to take into account the habits, views and attitudes of everyone else. In short, no free man can afford the luxury of ignoring money, a universal fact which explains why Spartan arrogance was achieved at the cost of an iron discipline that contrasted with the freedom of citizens of other states more liberal with money. This underlying principle of freedom of choice which is conferred on those with money became explicitly part of the strong foundations of classical economic theory in the nineteenth century, expounded most clearly in the works of Alfred Marshall, as 'the sovereignty of the consumer', a concept which despite all the qualifications which modify it today, nevertheless still exerts its considerable force through the mechanism of money.

Sovereignty of monetary policy

This essential linkage between money, free consumer choice and political liberty is the central and powerful theme of Milton Friedman's brand of monetarism consistently proclaimed for at least two decades, from his *Capitalism and Freedom* (1962) to what he has called his 'personal statement', *Free to Choose*, published in 1980. An even longer crusade championing the essential liberalism of money-based allocative systems was waged by Friedrich Hayek, from his *Road to Serfdom* in 1944 to his *Economic Freedom* of 1991.

Yet for a generation before Friedman, the eminent Cambridge economist Joan Robinson called into question the conventional basis of consumer sovereignty in her pioneering work on *Imperfect Competition* (1933). Indeed she doubted 'the validity of the whole supply-and-demand-curve analysis' (p.327). Many years later, with perhaps too humble and pessimistic an assessment of the tremendous influence of her writing, she felt forced to lament: 'All this had no effect. Perfect competition, supply and demand, consumer's sovereignty and marginal products still reign supreme in orthodox teaching. Let us hope that a new generation of students, after forty years, will find in this book what I intended to mean by it' (1963, xi).

By the mid-1970s it became obvious that, as in the inter-war period, the fundamental beliefs of economic theory were again being challenged, and nowhere was this probing deeper or more urgent than with regard to monetary economics. Mass unemployment had pushed Keynes towards a general theory which, when widely accepted, helped to bring full employment, surely the richest reward that can ever be laid to the credit (if admittedly only in part) of the economist's theorizing. But persistent inflation posed questions which Keynesians failed to answer satisfactorily, while the return of mass unemployment combined with still higher inflation finally destroyed the Keynesian consensus, and allowed the monetarists to capture the minds of our political masters.