



a



HISTORY of MONEY



FROM ANCIENT TIMES
TO THE PRESENT DAY



Glyn Davies



A History of Money

From Ancient Times to the Present Day

This page intentionally left blank

A History of Money

From Ancient Times to the Present Day

GLYN DAVIES

*Published in co-operation with
Julian Hodge Bank Limited*

UNIVERSITY OF WALES PRESS
CARDIFF
2002

© Glyn Davies, 2002

First edition, 1994

Reprinted, 1995

Second edition, in paperback with revisions and Postscript, 1996

Reprinted, 1997

Third edition, with revisions, 2002

All rights reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without clearance from the University of Wales Press, 10 Columbus Walk, Brigantine Place, Cardiff CF10 4UP.

www.wales.ac.uk/press

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN 0-7083-1773-1 hardback

0-7083-1717-0 paperback

The right of Glyn Davies to be identified as author of this work has been asserted by him in accordance with the Copyright, Design and Patents Act 1988.

Cover design by Neil James Angove

Cover illustrations: Barclaycard reproduced with permission of Barclays Bank; tally sticks with permission of the Public Record Office; cowrie shell and 'owl' of Athens with permission of the Ancient Art & Architecture Collection; five million mark note with permission of Mary Evans Picture Library.

Typeset in Wales at the University of Wales Press, Cardiff

Printed and bound in Great Britain by Creative Print and Design, Ebbw Vale

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

This page intentionally left blank

To
Sir Julian Hodge LL.D.
Merchant banker and philanthropist

This page intentionally left blank

Contents

Foreword by George Thomas, The Right Honourable Viscount Tonypandy	v
Dedication	vii
Acknowledgements	xv
Preface to the third edition	xvii
1 THE NATURE AND ORIGINS OF MONEY AND BARTER	1–33
The importance of money	1
Sovereignty of monetary policy	3
Unprecedented inflation of population	5
Barter: as old as the hills	9
Persistence of gift exchange	11
Money: barter's disputed paternity	13
Modern barter and countertrading	18
Modern retail barter	21
Primitive money: definitions and early development	23
Economic origins and functions	27
The quality-to-quantity pendulum: a metatheory of money	29
2 FROM PRIMITIVE AND ANCIENT MONEY TO THE INVENTION OF COINAGE, 3000–600 BC	34–65
Pre-metallic money	34
The ubiquitous cowrie	36
Fijian whales' teeth and Yap stones	37
Wampum: the favourite American-Indian money	39
Cattle: man's first working-capital asset	42
Pre-coinage metallic money	45
Money and banking in Mesopotamia	48
Girobanking in early Egypt	52

Coin and cash in early China	55
Coinage and the change from primitive to modern economies	58
The invention of coinage in Lydia and Ionian Greece	61
3 THE DEVELOPMENT OF GREEK AND ROMAN MONEY, 600 BC–AD 400	66–112
The widening circulation of coins	66
Laurion silver and Athenian coinage	68
Greek and metic private bankers	71
The Attic money standard	74
Banking in Delos	78
Macedonian money and hegemony	79
The financial consequences of Alexander the Great	82
Money and the rise of Rome	87
Roman finance, Augustus to Aurelian, 14 BC–AD 275	94
Diocletian and the world's first budget, 284–305	100
Finance from Constantine to the Fall of Rome	106
The nature of Graeco-Roman monetary expansion	109
4 THE PENNY AND THE POUND IN MEDIEVAL EUROPEAN MONEY, 410–1485	113–75
Early Celtic coinage	113
Money in the Dark Ages: its disappearance and re-emergence	117
The Canterbury, Sutton Hoo and Crondall finds	118
From sceattas and stycas to Offa's silver penny	123
The Vikings and Anglo-Saxon recoinage cycles, 789–978	128
Danegeld and heregeld, 978–1066	131
The Norman Conquest and the Domesday Survey, 1066–1087	134
The pound sterling to 1272	139
Touchstones and trials of the Pyx	144
The Treasury and the tally	147
The Crusades: financial and fiscal effects	153
The Black Death and the Hundred Years War	160
Poll taxes and the Peasants' Revolt	167
Money and credit at the end of the Middle Ages	169
5 THE EXPANSION OF TRADE AND FINANCE, 1485–1640	176–237
What was new in the new era?	176

Printing: a new alternative to minting	178
The rise and fall of the world's first paper money	181
Bullion's dearth and plenty	184
Potosi and the silver flood	188
Henry VII: fiscal strength and sound money, 1485–1509	190
The dissolution of the monasteries	194
The Great Debasement	198
Recoinage and after: Gresham's Law in Action, 1560–1640	203
The so-called price revolution of 1540–1640	212
Usury: a just price for money	218
Bullionism and the quantity theory of money	223
Banking still foreign to Britain?	233
6 THE BIRTH AND EARLY GROWTH OF BRITISH BANKING, 1640–1789	238–83
Bank money supply first begins to exceed coinage	238
From the seizure of the mint to its mechanization, 1640–1672	240
From the great recoinage to the death of Newton, 1696–1727	245
The rise of the goldsmith-banker, 1633–1672	248
Tally-money and the Stop of the Exchequer	252
Foundation and early years of the Bank of England	255
The national debt and the South Sea Bubble	263
Financial consequences of the Bubble Act	267
Financial developments in Scotland, 1695–1789	272
The money supply and the constitution	279
7 THE ASCENDANCY OF STERLING, 1789–1914	284–366
Gold versus paper . . . finding a successful compromise	284
Country banking and the industrial revolution to 1826	286
Currency, the bullionists and the inconvertible pound, 1783–1826	293
The Bank of England and the joint-stock banks, 1826–1850	304
The Banking Acts of 1826	306
The Bank Charter Act 1833	309
Currency School versus Banking School	311
The Bank Charter Act of 1844: rules plus discretion	314
Amalgamation, limited liability and the end of unit banking	316
The rise of working-class financial institutions	323
Friendly societies, unions, co-operatives and collecting societies	323
The building societies	327

The savings banks: TSB and POSB	333
The discount houses, the money market and the bill on London	340
The merchant banks, the capital market and overseas investment	345
The final triumph of the full gold standard, 1850–1914	355
Gold reserves, tallies and the constitution	365
8 BRITISH MONETARY DEVELOPMENT IN THE TWENTIETH CENTURY	367–456
Introduction: a century of extremes	367
Financing the First World War, 1914–1918	368
The abortive struggle for a new gold standard, 1918–1931	375
Cheap money in recovery, war and reconstruction, 1931–1951	384
Inflation and the integration of an expanding monetary system, 1951–1990	397
A general perspective on unprecedented inflation, 1934–1990	397
Keynesian ‘ratchets’ give a permanent lift to inflation	399
Filling the financial gaps	405
Stronger competition and weaker credit control	408
The American-led invasion and the Eurocurrency markets in London	414
The monetarist experiment, 1973–1990	421
The secondary banking crisis: causes and consequences	421
Supervising the financial system	425
Thatcher and the medium-term financial strategy	431
EMU: the end of the pound sterling?	443
9 AMERICAN MONETARY DEVELOPMENT SINCE 1700	457–548
Introduction: the economic basis of the dollar	457
Colonial money: the swing from dearth to excess, 1700–1775	458
The official dollar and the growth of banking up to the Civil War, 1775–1861	466
‘Continental’ debauchery	466
The constitution and the currency	468
The national debt and the bank wars	471
A banking free-for-all, 1833–1861	479
From the Civil War to the founding of the ‘Fed’, 1861–1913	487
Contrasts in financing the Civil War	487
Establishing the national financial framework	490
Bimetallism’s final fling	494

From gold standard to central bank(s), 1900–1913	499
The banks through boom and slump, 1914–1944	504
The ‘Fed’ finds its feet, 1914–1928	504
Feet of clay, 1928–1933	509
Banking reformed and resilient, 1933–1944	512
Bretton Woods: vision and realization, 1944–1991	517
American banks abroad	525
From accord to deregulation, 1951–1980	530
Hazardous deposit insurance for thrifts, banks . . . and taxpayers	535
From unit banking . . . to balkanized banking	539
Summary and conclusion: from beads to banks without barriers	546
10 ASPECTS OF MONETARY DEVELOPMENT IN EUROPE AND JAPAN	549–95
Introduction: banking expertise shifts northward	549
The rise of Dutch finance	550
The importance of the Bank of Amsterdam	550
The Dutch tulip mania, 1634–1637	551
Other early public banks	554
France’s hesitant banking progress	555
German monetary development: from insignificance to cornerstone of the EMS	567
The monetary development of Japan since 1868	582
Introduction: the significance of banks in Japanese development	582
Westernization and adaption, 1868–1918	583
Depression, recovery and disaster, 1918–1948	587
Resurgence and financial supremacy, 1948–1990	590
Stagnation and the limitations of monetary policy, 1990–2002	594
11 THIRD WORLD MONEY AND DEBT IN THE TWENTIETH CENTURY	596–641
Introduction: Third World poverty in perspective	596
Stages in the drive for financial independence	601
Stage 1: <i>Laissez-faire</i> and the Currency Board System, c.1880–1931	603
Stage 2: The sterling area and the sterling balances, 1931–1951	607

Stage 3: Independence, planning euphoria and banking mania, 1951–1973	610
Stage 4: Market realism and financial deepening, 1973–1993	616
The Nigerian experience	616
Impact of the Shaw-McKinnon thesis	619
Contrasts in financial deepening	622
Third World debt and development: evolution of the crisis	632
Conclusion: reanchoring the runaway currencies	639
12 GLOBAL MONEY IN HISTORICAL PERSPECTIVE	642–59
Long-term swings in the quality/quantity pendulum	642
The military and developmental money-ratchets	646
Free trade in money in a global, cashless society?	649
Independent multi-state central banking	652
Conclusion: ‘Money is coined liberty’	655
13 FURTHER TOWARDS A GLOBAL CURRENCY	660–83
The epoch-making euro	660
More coins in an increasingly cashless society	667
The paradox of coin: rising production – falling significance	669
Speculation and the Tobin Tax	674
The end of inflation?	679
Bibliography	684–702
Index	703–20

Acknowledgements

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 himself 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 than 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

This page intentionally left blank

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.

- [download Fischer des Leerraums \(Perry Rhodan Neo, Band 113; Die Posbis, Band 3\)](#)
- [Carbon Democracy: Political Power in the Age of Oil pdf, azw \(kindle\), epub, doc, mobi](#)
- [**read Assessment Scales in Depression and Anxiety \(Assessment Scales in Psychiatry Series\) book**](#)
- [Alice on the Line pdf](#)
- [read The Allgemeine-SS \(Men-at-Arms, Volume 266\)](#)
- [read online The Praise of Folly for free](#)

- <http://paulczajak.com/?library/Classical-Confucian-Political-Thought--A-New-Interpretation.pdf>
- <http://fortune-touko.com/library/The-Struggle-for-Egypt--From-Nasser-to-Tahrir-Square.pdf>
- <http://paulczajak.com/?library/Assessment-Scales-in-Depression-and-Anxiety--Assessment-Scales-in-Psychiatry-Series-.pdf>
- <http://nexson.arzamaszev.com/library/Alice-on-the-Line.pdf>
- <http://damianfoster.com/books/The-Allgemeine-SS--Men-at-Arms--Volume-266-.pdf>
- <http://xn--d1aboelcb1f.xn--p1ai/lib/Teach-Yourself-VISUALLY-Photoshop-Elements-13.pdf>