HISTORY OF MONEY

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What is Money?

At first sight the answer to this question seems obvious; the man or woman in the street would agree on coins and banknotes, but would they accept them from any country? What about cheques? They would probably be less willing to accept them than their own country's coins. What about credit cards and gold? The gold standard belongs to history but even today in many rich people in different parts of the world would rather keep some of their wealth in the form of gold than in official, inflation-prone currencies. The attractiveness of gold, from an aesthetic point of view, this is its resistance to corrosion - the property which led to its use for monetary transactions for thousands of years.

All sorts of things have been used as money at different times in different places. The list below includes the enormous variety of primitive moneys, and none of the modern forms.

Amber, beads, drums, eggs, feathers, gongs, hoes, kettles, leather, mats, nails, oxen, pigs, quartz, rice, salt, thimbles, wampum, yarns, and decorated axes.

It is almost impossible to define money in terms of its physical form or properties since these are so diverse. Therefore any definition must be based on its functions:

Specific functions (mostly micro-economic)

-Unit of account (abstract)
-Common measure of value (abstract)
-Medium of exchange (concrete)
-Means of payment (concrete)

General functions (mostly macro-economic)

-Liquid asset
-A causative factor in the economy
-Controller of the economy

Although paper money obviously had no intrinsic value its acceptability originally depended on its being backed by some commodity, normally precious metals. During the Napoleonic Wars convertibility of Bank of England notes was suspended and there was some inflation which, although quite mild compared to that which has occurred in other wars, was worrying to contemporary observers who were used to stable prices and, in accordance with the recommendations of an official enquiry Britain adopted the gold standard for the pound in 1816. For centuries earlier silver had been the standard of value. France and the United States were in favour of a bimetallic standard and in 1867 an international conference was held in Paris to try and widen the area of common currencies based on coins with standard weights of gold and silver. However when the various German states merged into a single country in 1871 they chose the gold standard. The Scandinavian countries adopted the gold standard shortly afterwards. France made the switch from bimetallism to gold in 1878 and Japan, which had been on a silver standard, changed in 1897. Finally, in 1900, the United States officially adopted the gold standard.

With the outbreak of the First World War in 1914 Britain decided to withdraw gold from internal circulation and other countries also broke the link with gold. Germany returned to the gold standard in 1924 when it introduced a new currency, the Reich mark and Britain did the following year, and France in 1928. However the British government had fixed the value of sterling and in the worldwide economic crisis in 1931 Britain, followed by most of the Commonwealth, Ireland, Scandinavia, Iraq, Portugal, Thailand, and some South American countries abandoned gold. The United States kept the link to gold and after the Second World War the US dollar replaced the pound sterling as the key global currency. Other countries fixed their exchange rates against the dollar, the value of which remained defined in terms of gold. In the early 1970s the system of fixed exchange rates started to break down as a result of growing international inflation and the United States abandoned the link with gold in 1973.

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