A Brief History of Money: Part II

Having developed government to the point that it was ruling many villages and several small cities, rulers began to desire more profitable trade. There were many problems with the diversity of the commodities being used as media of exchange. It was difficult to compare the value of two particular items since they might be quite different. If the region was using salt as its medium of exchange, for example, there might be sand mixed in with the salt. One pound of salt might be dirty and another clean. This made trade more difficult and led to conflict in the marketplace.

About this time, the development of metal technology was getting started. Tin, copper, and other metals were found to be useful for tools, weapons, and decorations. The people of the government would almost always be willing to accept metals for the citizen's taxes. But there were problems with metals as well. Was the metal pure? Was it in the form of ore or refined metal? Was it really *this* metal or actually *that* metal.

These problems existed for centuries but because metals lasted and were so useful for things the rulers wanted, they came to dominate (along with salt) the various things being used as money.

Then someone got a brilliant idea and sold that idea to some important ruler in the middle east. What if the government cast metal into disks of a standard weight of metal at a standard purity and put the ruler's image on the disk. That way the traders would know at a glance what they would be accepting for their products. Trade would be facilitated and the economy would flourish.

This was a great breakthrough. It enabled government to get even bigger and gave the rulers a strong motivation to convert some of their store of metal into coins instead of making weapons or tools of that metal. But it was found that some metal was better for making tools than other metals. Some metals were soft when pure and some would corrode and so on. It was found that gold and silver were not very good tool metals because they were too soft. In fact, gold was so soft that it was almost useless when pure. But gold was in short supply and it did not tarnish as silver did. It was nice and shiny, like silver, but it stayed shiny when handled. It didn't turn one's skin green as did copper. So, gold became the coin of choice with the highest value but silver was also valuable as decoration and was in great enough supply that it could serve as coins of lesser value and for those smaller and more frequent trades. Other metals were also used but silver and gold coins were the most valuable per unit of weight.

In fact, for most people, gold and silver were useless *except* as coins. Most people were too poor to have gold or silver jewelry, and bodily decoration came from other materials. But because gold and silver were so useful as money, the value people assigned to those metals increased far beyond their usefulness in making goods for consumption. Money, once a commodity which helped trade, was becoming a commodity in its own right regardless of its physical properties.

But this new and improved money - coins, while better than what had been used before, still had problems. Governments and others were tempted to mix other metals with the gold or silver to increase the supply of coins. This was a form of inflation, of course, but also a form of counterfeiting. The average citizen had to come up with various tests of the coins to be sure they were the right metal and weight. Did a coin "ring true" or did it have the wrong sound when dropped. If you bit the gold coin, was it soft enough to have a high gold content or was it so mixed with some other metal or metals that it was too hard to have much gold? Did the coin meet the "acid test" of purity? And, of course, did the coin weigh the right amount on the scales? Even specie (metal coins) was not without its problems.

But there were more problems than the acceptability of coins in trade. There was the problem of money supply. Sometimes, the amount of coins increased and sometimes it decreased for various reasons. If a conqueror came through and the soldiers took all the money they could find, the local economy not only suffered from the depredations of the troops in destruction of capital goods and merchandise, it also suffered after the soldiers left in that people had no coins to use in trade. The populace was forced back into barter which simply doesn't work well enough to keep *cities* going. On other, less common, occasions, the supply of money increased (as when the soldiers came home from successful conquest) and the prices of goods and services shot up. These fluctuations in the supply of money were independent of the supply of goods and services for sale, of course, which made things difficult for everyone.

This was especially true for those who loaned or borrowed money. If the value of the money was changing, then either the borrower or the lender was being cheated. If inflation was taking place, the lender was being repaid in money that was worth less than the money which was loaned out, even if the units of money were the same as agreed. If the supply of money was dropping and prices were dropping, the borrower had to repay the loan in money that was worth much *more* than it had been worth when it was borrowed.

But on a larger scale, the supply of money had become a limiting factor in the operations of government and the rich and powerful. Those building

projects (like city walls and palaces) and those wars were very expensive. Unless there was plenty of coin available one couldn't pay the army nor the workers who built the ships and fortifications and palaces. In some nations (like Rome) it was even difficult to get *elected* unless one could pay the citizens (those who could vote).

Clearly something else was needed.