

# A Brief History of Money

## Hernan Cortes

In 1519 Hernan Cortes and his conquistadores invaded Mexico. The Aztecs noticed that the aliens showed an extraordinary interest in gold. The natives used it to make jewellery and statues, but when an Aztec wanted to buy smth, he generally paid in cocoa beans or bolts of cloth. The Spanish obsession with gold thus seemed inexplicable.

When the natives questioned Cortes as to why the Spaniards had such a passion for gold, the conquistador answered, "Because I and my companions suffer from a disease of the heart which can be cured only with gold."

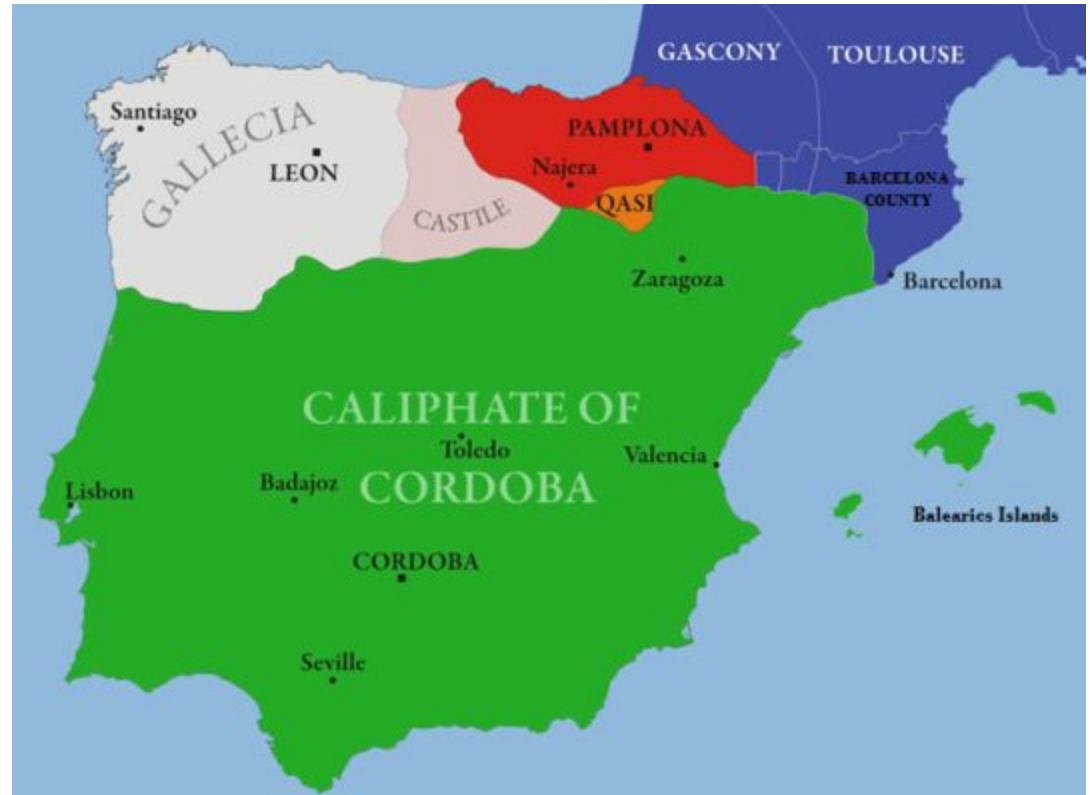


## The conquest of Iberia

Three centuries before the conquest of Mexico, the ancestors of Cortes waged a bloody war of religion against the Muslim kingdoms in Iberia and North Africa.

The followers of Christ and the followers of Allah killed each other by the thousands, devastated fields and orchards, and turned prosperous cities into smouldering ruins – all for the greater glory of Christ or Allah.

As the Christians gained the upper hand, they marked their victories not only by destroying mosques and building churches, but also by issuing new gold and silver coins bearing the sign of the cross and thanking god for his help in combating the infidels.



## The Islamic millares coin

Yet alongside the new currency, the victors minted another type of coin, called the millares, which carried a somewhat different message.

The square coins made by the Christian conquerors were emblazoned with following Arabic script that declared: "There is no god except Allah, and Muhamad is Allah's messenger."

Even the Catholic bishops of Agde issued these faithful copies of popular Muslim coins, and god-fearing Christians happily used them.



## The Florentine florin

Tolerance flourished on the other side of the hill too. Muslim merchants in North Africa conducted business using Christian coins such as the Florentine florin.



The Venetian ducat



## The Neapolitan gigliato

Even Muslim rulers who called for jihad against the infidel Christians were glad to receive taxes in coins that invoked Christ and his Virgin Mother.



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# How Much Is It?

- Hunter-gatherers had no money. Different band members specialized in different tasks, but they shared their goods and services through an economy of favours and obligations – barter.
- Specialization created a problem – how do you manage the exchange of goods between the specialists? Barter does not work when large numbers of strangers try to cooperate.



- Barter is effective only when exchanging a limited range of products. It cannot form the basis for a complex economy.
- Some societies tried to establish a central barter system. The most famous experiment was conducted in the Soviet Union, and it failed miserably.
- Yet most societies found a more easy way to connect large numbers of experts – they developed money.

# Shells and Cigarettes

- The development of money required no technological breakthroughs – it was a purely mental revolution. It involved the creation of a new inter-subjective reality that exists solely in people's shared imagination.
- Money is not coins and banknotes. Money is anything that people are willing to use to represent the value of other things for the purpose of exchanging goods and services.

## Cowry-shells

Money existed long before the invention of coinage, and cultures have prospered using other things as currency : shells, cattle, skins, salt, grain, beads, cloth and promissory notes.

Cowry-shells were used as money for about 4,000 years all over Africa, South Asia, East Asia and Oceania. Taxes could still be paid in cowry shells in British Uganda in the early 20<sup>th</sup> century.



## POW camp

In modern prisons and POW camps, cigarettes have often served as money.

One Auschwitz survivor described the cigarette currency used in the camp :  
“We had our own currency, whose value no one questioned: the cigarette. The price of every article was stated in cigarettes... When the candidates to the gas chambers were coming in at a regular pace, a loaf of bread cost 12 cigarettes; a 300-gram package of margarine, 30; a watch, 80; a litre of alcohol, 400 cigarettes!”



- Even today coins and banknotes are a rare form of money. The sum total of money in the world is about 60 trillion, yet the sum total of coins and banknotes is less than 6 trillion. More than 90% of all money exists only on computer servers. Most business transactions are executed by moving electronic data from one computer file to another, without any exchange of physical cash.

## The sales of indulgences

Money is thus a universal medium of exchange that enables people to convert almost anything into almost anything else.

Brawn gets converted to brain when a discharged soldier finances his college tuition with his military benefits.

Health is converted to justice when a physician uses his fees to hire a lawyer – or bribe a judge.

It is even possible to convert sex into salvation, as 15<sup>th</sup> century prostitutes did when they slept with men for money, which they in turn used to buy indulgences from the Catholic Church.



- Because money can convert, store and transport wealth easily and cheaply, it made a vital contribution to the appearance of complex commercial networks and dynamic markets. Without money, commercial networks and markets would have been doomed to remain very limited in their size, complexity and dynamism.

# How Does Money Work?

- Cowry shells and dollars have value only in our common imagination. Their worth is not inherent in the chemical structure of the shells and paper, or their color, or their shape. Money is not a material reality – it is a psychological construct. It works by converting matter into mind. But why does it succeed? People are willing to do work when they trust the figments of their collective imagination. Trust is the raw material from which all types of money are minted.



- Money is the most universal and most efficient system of mutual trust ever devised. Why do I believe in dollars? Because my neighbors believe in them. And my neighbours believe in them because I believe in them. And we all believe in them because all presidents and governments believe in them and demand them in taxes. Even priests believe in them and demand them for their religious services.

- When the first versions of money were created, people did not have this sort of trust, so it was necessary to define as “money” things that had real intrinsic value. History’s first known money is Sumerian barley money. It appeared in Sumer around 3000 BC, at the same time and place, in which writing appeared. Writing answered the needs of intensifying administrative activities, and barley money answered the needs of intensifying economic activities.

- The most common measurement was the sila, equivalent to roughly one litre. Standardized bowls, each containing one sila, were mass-produced. Salaries were set and paid in silas of barley. A male laborer earned 60 silas a month, a female laborer – 30. A foreman could earn 5000 silas. Later they could use the silas they did not eat to buy all sorts of other commodities – oil, goats, slaves, clothes...

## Silver shekel from Mesopotamia 3000 BC

The real breakthrough in monetary history occurred when people gained trust in money that lacked inherent value, but was easier to store and transport. Such money appeared in ancient Mesopotamia around 3000 BC. This was the silver shekel.

When it was introduced, a shekel was not a coin, but rather 8.33 grams of silver. When Hammurabi's Code declared that a man who killed a slave woman must pay her owner 20 silver shekels, it meant that he had to pay 166 grams of silver, not coins.

Unlike the barley sila, the silver shekel had no inherent value. You cannot eat or drink it, and it is too soft for making tools. Silver and gold are made into jewellery, crowns and other goods that members of a particular culture identify with high social status. Their value is purely cultural.



## One of the earliest coins in history, from Lydia of the 7<sup>th</sup> century BC

Set weights of precious metals eventually gave birth to coins. The first coins in history were struck around 640 BC by King Alyattes of Lydia, in western Anatolia. These coins had a standardised weight of gold or silver, and were imprinted with an identification mark. The mark testified to two things. First, it indicated how much precious metal the coin contained. Second, it identified the authority that issued the coin and that guaranteed its contents. Almost all coins in use today are descendants of the Lydian coins.



## Augustus, denarius

In the 1<sup>st</sup> century AD, Roman coins were an accepted medium of exchange in the markets of India, even though the closest Roman legion was thousands of kilometres away. The Indians had such a strong confidence in the denarius and the image of the emperor that when local rulers struck coins of their own they closely imitated the denarius. The name “denarius” became a generic name for coins. Muslim caliphs Arabicised this name and issued “dinars”. The dinar is still the official name of the currency in Jordan, Iraq, Serbia, Macedonia, Tunisia and several other countries. Muslim and European merchants and conquerors gradually spread the Lydian system and the gospel of gold to the far corners of the earth. By the late modern era the entire world was a single monetary zone, relying first on gold and silver, and later on a few trusted currencies such as the British pound and the American dollar.



# The Gospel of Gold

- People continued to speak mutually incomprehensible languages, obey different rulers and worship different gods, but all believed in gold and silver and in gold and silver coins. Without this shared belief, global trading networks would have been virtually impossible. The gold and silver that 16<sup>th</sup> century conquistadors found in America enabled European merchants to buy silk, porcelain and spices in East Asia, thereby moving the wheels of economic growth both in Europe and East Asia.

- Yet why should Chinese, Indians, Muslims and Spaniards – who belonged to very different cultures that failed to agree about much of anything – nevertheless share the belief in gold? Economists have a ready answer. Once trade connects two areas, the forces of demand and supply tend to equalize the prices of transportable goods.



- For thousands of years, philosophers and prophets have besmirched money and called it the root of all evil. But money is also the apogee of human tolerance. It is the only trust system created by humans that can bridge almost any cultural gap, and that does not discriminate on the basis of religion, gender, race, age or sexual orientation. Thanks to money, even people who do not know each other and do not trust each other can nevertheless cooperate effectively.

# The Price of Money

- Money is based on two universal principles:
- 1. Universal convertibility: with money as an alchemist, you can turn land into loyalty, justice into health, and violence into knowledge.
- 2. Universal trust: with money as a go-between, any two people can cooperate on any project.