Money Through the Ages: From Barter to Bretton Woods and Beyond

Early forms of money and credit. In human prehistory people bartered goods like livestock and grain, but trade also used commodity “money”: items of intrinsic value such as cowrie shells, salt, or beads often served as common media of exchange [1]. Societies also kept accounts of debt: for example, ancient Mesopotamian tablets and even carved tally sticks recorded who owed what. One scholar notes that counting tools and records (e.g. 20,000-year-old tally bones) show “money of account predates the use of coinage by several thousand years” [2]. In other words, early money often began as promises or credits on a ledger, then later took physical form (coins, paper) once societies developed standardized units.

Medieval trade and banking innovations. By the High Middle Ages, long-distance trade demanded safer and more convenient payment methods. Italian banking families (sometimes called “Lombards”) pioneered bills of exchange and letters of credit, letting merchants send payment orders instead of carrying heavy coin [3]. At the same time, Italy’s city-states competed fiercely in coinage. Florence and Venice succeeded by maintaining **stable gold coins**. For example, Florence’s gold florin (first minted 1252) weighed about 3.5 grams of nearly pure gold and **was never debased for centuries** [4]. Likewise the Venetian ducat (1284) kept an unchanging gold standard [5]. These cities **resisted debasement**, gaining reputations for “honesty and stability,” so their coins were trusted far beyond Italy [6] [4].

Image: A pierced gold florin (15th century). Italy’s trusted gold coins – like Florence’s florin and Venice’s ducat – dominated medieval international trade because they kept reliable weight and purity [4] [6].

Merchants across Europe and the Mediterranean preferred these “good money.” By the 1300s the florin was widely accepted in Flanders, Germany, England and the Levant; contracts often specified payment in florins, and major banking houses (Bardi, Peruzzi, Medici, etc.) built credit networks around it [4] [7]. In contrast, states that repeatedly debased their coins (like some popes or Naples) found their money shunned outside local borders. Thus medieval markets **“chose”** money by trust: stable coins spread by market competition. Italian innovations – **bills of exchange** – also facilitated trade by allowing payments without moving gold. A 13th-century merchant could effectively lend or pay another by endorsing a bill of exchange, which banks could honor in distant cities [3]. Such credit instruments marked an early domestic “money” of account for merchants, parallel to physical coin.

England’s Financial Revolution (1688–1760)

By the 17th century, European monarchs faced rising war costs they could no longer fund through simple taxes. In England, a turning point came with the **Glorious Revolution (1688)**, which placed William III and Mary II on the throne under a strengthened Parliament. Parliament asserted control over royal finances: it forbade the Crown from borrowing without its consent and set up accounting oversight (a 1690 Public Accounts Commission, etc.) [8]. Historians call this the **“Financial Revolution.”** The old royal debts (often personal loans at exorbitant interest) were converted into a funded public debt under parliamentary control

[9]. One scholar notes that after 1688 “personal royal debt [was] transferred…into a public debt controlled by Parliament” [9].

In 1694, amid William’s expensive wars with France, Parliament authorized creation of the **Bank of England** as a joint-stock company to lend money to the government. The Bank’s first loan (£1.2 million at 8 %) financed war efforts [10]. Equally important was Parliament’s guarantee: new taxes were explicitly **earmarked** to service the Bank’s debt [11]. Investors in the Bank thus knew their loans were as secure as government taxes. As the UK Parliament’s history notes, this assurance “helped ensure the success” of the Bank – loaners “could be confident that their loans…would be repaid by parliamentary taxation appropriated for that purpose” [11]. In effect, England pioneered the modern funded state bond. The Crown’s discretionary debt became a **public obligation** backed by taxes.

Image: Sealing of the Bank of England Charter (1694). After 1688 Parliament took control of royal finances [9], and in 1694 it sponsored a new Bank to loan William III’s government £1.2 million [10] – with taxes dedicated to paying it back [11].

By 1696 Parliament also reformed coinage. Appointing Isaac Newton as Master of the Mint, it undertook a great recoinage and fixed a new gold/silver ratio. In 1717 Newton set the mint price of gold relative to silver **too low for silver’s market value**, inadvertently placing Britain on a gold standard [12]. Silver coins then flowed out of Britain, and gold became the de facto anchor of the pound. Over the 18th century Britain remained on this de facto gold standard (with legal statutes in place by 1774) [12]. In summary, England’s 17th–18th century finance featured parliamentary oversight, a national bank, government bonds, and a shift to gold – all driven by war needs and political reform [9] [11].

War Finance and the Gold Standard (1790–1914)

The Napoleonic wars turned these principles to extremes. In Britain, the strain of wartime borrowing led to inflation and fear of bank runs. In 1797 (during the French invasion scare), Parliament **suspended the Bank of England’s obligation to redeem notes in gold**. A massive run on gold would have bankrupted the Bank (notes outstanding were double the gold reserves [13]), so Parliament passed the Bank Restriction Act forbidding gold withdrawals [13]. This “Restriction” (1797–1821) freed the government to issue more paper currency. By the war’s end in 1814, notes in circulation totaled £28.4 million but were backed by only £2.2 million of gold [14]. (For reference, just before the suspension the Bank had only £5.3 million bullion against £10.8 million in notes [13].) With the war over, Britain eventually restored gold convertibility in 1821, reviving the prewar currency link.

Across the Channel, revolutionary France also turned to paper money. In 1789 the Assembly printed the **assignat**, initially as a 5 % bond backed by confiscated church lands. By 1790 it became redeemable paper currency, and issuance swelled – from 400 million to 1,200 million livres in one year [15]. At first this relieved the cash shortage, but popular distrust grew. As war spread in 1792, confidence collapsed and the assignat hyperinflated. By 1796 it was replaced by **mandats territoriaux** at a 30:1 ratio, and finally abandoned in 1797; France reverted to a metallic money by Napoleon’s decimal coinage [15] [16]. Like Britain’s later restriction, the French experience shows how unbacked paper in wartime can finance spending at the cost of trust and price stability.

After Napoleon, Europe largely returned to gold. Britain resumed gold convertibility at the pre-1797 parity in 1821. Other powers (France, Germany, U.S., etc.) gradually pegged their currency units to specified quantities of gold (or maintained bimetallic systems) through the 19th century. The **classical gold standard** (roughly 1870–1914) tied domestic money to gold and established fixed exchange rates internationally [17]. Under gold, trade imbalances automatically self-corrected via specie flows, and government debt had to be funded by either taxes or bond issues with bullion backing. In practice, the 19th century saw governments issue long-term bonds to finance wars and investments (e.g. railways, military) rather than sudden large tax hikes. Taxes on trade and consumption helped service these debts, and strong countries (like Britain) built reputations for honoring debt, keeping interest rates relatively low. Scholars note that sovereign bonds became liquid collateral; European city-states by the 17th–18th centuries could borrow at ~5% interest, far below earlier levels, because credit was backed by tax streams [18]. Yet war remained the central driver: with hundreds of small states competing, "war was frequent… Sovereign debt thus developed as a vital means of state survival. It enabled the state to finance expenditures of uncertain size and duration" [18].

Global Monetary Systems: 20th Century to Today

The 20th century brought upheaval. World War I forced most belligerents off gold (governments turned to printing money and borrowing). In the 1920s a weakened gold standard partially returned, but the Great Depression broke it again. After World War II, Allied nations redesigned the system at Bretton Woods (1944). They fixed exchange rates: each currency was pegged to the U.S. dollar (within ±1%), and the dollar was pegged to gold at **$35 per troy ounce** [19]. The U.S. Federal Reserve managed this link: dollars held by foreign central banks were supposed to be redeemable for gold at the official price.

In 1945 the IMF was created to enforce this system. By 1958 currencies were fully convertible again, with the dollar "reserve currency." Under Bretton Woods, international balances were settled in dollars, and only the U.S. owed gold. This arrangement lasted until U.S. deficits and overseas dollar accumulation exceeded U.S. gold reserves. In 1971 President Nixon formally ended dollar-gold convertibility [20]. Technically that dismantled Bretton Woods: by 1973 most major currencies floated in value. Thus, **since the early 1970s all major economies have fiat money** – currency backed by government decree and promise, not by a commodity. Even so, many central banks still hold gold in reserve, partly as a hedge.

Today there is no global commodity money. Exchange rates float (or are loosely managed) and global trade balances are settled in strong national currencies (e.g. U.S. dollar, euro, yen). Trust in money now hinges on institutions: central banks, legal systems, and tax laws. As Modern Monetary Theory (MMT) notes, a sovereign government issues the only currency it can legally accept in taxes, which creates demand for it. In other words, citizens must use the domestic currency to pay taxes and debts, so that currency is inherently backed by the state's taxing power. Internationally, though, major currencies are used by others because of size and stability of their issuing countries, not by any apolitical virtue. (Cryptocurrencies are a recent experiment in alternative money, but historically the largest and most liquid currencies have been state-sponsored or commodity-linked.) The history of money shows it is deeply political: regimes issue and honor currencies for practical (often military) reasons, and trust in money ultimately depends on institutions and perceived stability, not mythology.

In summary, over the ages money has shifted between various forms – tangible commodity, representative paper, fiat credit – as societies evolved. Early on, **trust** was anchored in precious metals or stable institutions; nations used gold/silver when possible for international trade. In crises (wars, revolutions) they often resorted to paper and bonds, sometimes creating new banks or currencies (England 1694, US

Continental dollars, French assignats, etc.). By the late 19th and early 20th centuries many countries standardized on the gold standard to facilitate trade. After WWII, fixed exchange rates tied to the U.S. dollar (and dollar to gold) aimed for stability, until finally in 1971 the fully fiat era began. Through it all, the choice of money (commodity vs credit, hard vs soft) reflected fiscal needs, political power, and what people would accept as trust-worthy medium. The key lesson is historical: **money is social and political**, always emerging from the needs and agreements of its time [11] [9].

Sources: Historical scholarship on monetary systems and central banking [1] [2] [6] [3] [4] [5] [9] [21] [11] [13] [14] [15] [16] [12] [18] [19] [20] (citations provide detailed evidence).

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