ChatGPT

Medieval Credit and Currency in the King's Era

Medieval kingdoms used credit-like instruments alongside actual coinage. In England, the Exchequer used **tally sticks** – notched hazel-wood sticks split in two – to record debts and payments. Each tally was an interest-free IOU from the Crown: one half (the *stock*) was kept by the Treasury and the other (the *foil* or *ticket*) by the payer. These tallies could be transferred and even used to pay taxes, effectively **circulating as money** within the kingdom [1] [2]. In this way the king could extend the reach of his limited coin supply by using tallies as credit-money. (In fact, tallies "substituted and extend[ed] the reach of the Sovereign's coined money, which was the primary means of settlement of payment" [1].)

Figure: A medieval English tally stick recording a tax debt (notches and inscriptions on wood). Each tally was split to create two matching halves, one for the king (the Exchequer) and one for the payer. Tallies thus functioned as transferable government IOUs [1] [2].

- **Tallies as domestic IOUs:** Each tally promised future payment in coin, but could itself circulate as a credit instrument. For example, one could use a tally to discharge a tax or a royal debt, and merchants would accept them much like coin [1] [2].
- **Currency backing:** Tallies did not create new gold or silver – they recorded debts against future royal revenue. Underneath, the Crown still relied on minted **silver and gold coin** as the ultimate settlement. In fact, contemporary analyses note that while tallies circulated, "the Sovereign's coined money" remained "the primary means of settlement" [1].
- **Broad acceptance within the realm:** Because the king declared taxes payable in specific coins (e.g. silver pennies) and recognized tallies for internal debts, even small transactions gradually monetized. By the 14th century, "everyone from the king down to the humblest peasant used coins," dispelling the myth that bartering or payment-in-kind predominated [3].

Foreign Debts and Gold Payments

When the king dealt with **foreign merchants or bankers**, the rules changed. English tallies (and other domestic credits) had no standing beyond England's borders – a foreign trader could not present a piece of notched wood to a merchant in Flanders or Italy. Instead, international lenders **insisted on precious-metal coin**. In medieval Europe, most international loans and trade deals were explicitly repayable in **gold or silver**. Indeed, international contracts often included "gold clauses" requiring repayment in actual bullion or its equivalent [4]. Gold (and high-quality silver) had universal acceptability: it needed no local verification, could be melted or re-coined if needed, and carried value everywhere [4]. This is why our king – when borrowing from, say, Italian financiers or Flemish merchants – had to accumulate real gold (or silver florins, marks, etc.) for payment, rather than issue more domestic tallies.

- **Foreign lenders demanded coin:** Lenders abroad trusted only hard money. As one analysis notes, "foreign lenders needed gold specifically" because it was "self-validating" and backed by legal clauses demanding gold settlement [4]. A tallied debt owed by the English king meant nothing to them.
- **Bills of exchange vs. specie:** Medieval merchants developed *bills of exchange* (letters of credit) to move value across borders without shipping tons of metal. Indeed, in practice "most settlements

occurred through bills of exchange, not gold," with actual bullion shipment only for net imbalances [5]. But even these bills ultimately tied back to gold/silver: after clearing, the final net owed often had to be paid in coin.
- **Example – war finance:** For instance, Edward I and II financed wars by large loans from Italian banking houses. The bankers were paid back not in tallies but largely through seizures of wool duties and other revenues – effectively converting those debts into real goods or coin [6]. (England's wool was a form of value exportable overseas.) In short, to buy imports or settle foreign claims, the king needed *actual money*.

State-Minted Coinage and Money Demand

The emergence of money was driven by the Crown's authority. Medieval kings **defined the currency** and forced its use. Typically, a king would first mint a new silver or gold coin and then decree that taxes, fines, and fees must be paid in that coin. This guaranteed demand. For example, when the English king created a new penny or florin, he *mandated* that it be used for all royal dues [7]. As one summary observes, states "issued/mandated coins *before* demanding tax payment in those coins," then enforced payment by heavy penalties [7]. In effect, the king turned his coin into the chosen unit of account: everyone needed it to settle obligations.

- **Taxes in coin:** A classic medieval procedure was to declare a tax (or "scutage" or poll tax) *payable only in the king's coinage*. This forced peasants and merchants to obtain silver pennies (or gold marks) to avoid punishment [7]. With taxes due in coin, demand for the currency was ensured.
- **Coin as payment of debts:** The king also required that debts to the Crown be paid in coin. Since tallies and other IOUs could only go so far internally, actual revenues (tax collected in coins) ultimately settled those debts.
- **Widespread usage:** Contemporary evidence backs this state-driven model. By the late Middle Ages even small transactions relied on coin. Medieval clerics noted with surprise that "everyone from the king down to the humblest peasant used coins" by 1348 [3]. The trend of monetization (more coin in circulation) had been growing since the Domesday era.

Key Takeaways

- **Domestic vs. foreign currency:** Tallies and other credit instruments could serve as money *within* the kingdom [1] [2], but had no power abroad. For any dealings with overseas traders or lenders, the king had to provide recognized currency – typically gold or silver coin – because foreign parties demanded a universally accepted medium [4] [5].
- **What was borrowed:** In practice, when the king *borrowed* from foreign financiers, the loans were counted and repaid in coin. (Later on, merchants' bills of exchange helped transfer value, but ultimately only metal money cleared such debt.) Domestically, the king could borrow or spend by issuing tallies (credit), but those only financed internal expenses or taxes.
- **State-backed origin of money:** Medieval rulers essentially **created money by decree**. They minted metal coins and then required taxes and debts be settled in those coins [7]. This legal requirement made coins valuable. In effect, money began not as barter but as an IOU enforced by the state – the tallies and coins alike were promises linked to royal authority and tax power.

Sources: Historical and economic analyses of medieval money and tally-stick systems [1] [2] [4] [5] [7] [3] provide the basis for this explanation. Each shows how tallies circulated domestically, how kings mandated coinage, and why foreign debts had to be met with gold or silver.

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[1] [2] A History Lost - The English Tally - The Gower Initiative for Modern Money Studies
https://gimms.org.uk/2019/03/08/history-english-tally/

[3] [4] [5] [7] Historical Money Systems_ From Ancient Credit to Modern Fiat Currency.pdf
file://file_0000000031b0720c87323e8e7aab2d36

[6] Great Defaults from History, Part 372: The English Experience c.1300 | Gold News
https://www.bullionvault.com/gold-news/opinion-analysis/great-defaults-history-part-372-english-experience-c1300-07222011