Four Phases in the History of Money

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Abstract

In this paper I offer a new characterisation of the history of money into four major phases, from the earliest written records during the 3rd millennium BC to the present day. This characterization sheds light on both the nature and the evolution of money, and helps us to understand today’s monetary arrangements. Money evolves over time as the media of exchange in use change from metal to coinage and from coinage to different forms of debt, and as the unit of account becomes more or less linked to the value of a commodity or a physical object.

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1. Introduction

This paper organizes the history of money into four phases or eras, from the 3rd millennium BC to the present day. Doing so not only enhances our understanding of how money has evolved over time; it also clarifies our views about the nature of money and renders our current monetary system intelligible. Although the literature on the history of money is vast, the characterization presented here is novel and gives a unifying thread to monetary arrangements over all recorded human history.

Economists typically define money as “any asset that can easily be used to purchase goods and services” (Krugman and Wells 2006, p. 722). Money is then said to fulfils several functions, notably those of serving as a medium of exchange, a unit of account, and a store of value.

It is important to realize that, for the purpose of studying money’s history, the above definition is constraining. First, it assumes that, once a form of money is in circulation, both the unit of account and the medium of exchange functions are satisfied, and satisfied to the same extent. As we shall see, through most of human history this has been far from the case. Second, the definition fails to point out that most of what we refer to as money nowadays are in fact the liabilities of certain institutions – what I will call credit money. As we shall see, much of the history of money concerns the passage from forms of money which are not liabilities to forms of money which are.

Given the historical scope of this paper, it will be advantageous to start not from a definition of money but from a broader concept which I shall refer to as a monetary system:

A monetary system is a unit of account and a set of media of exchange. Together, these two elements enable the functioning of a market economy.

It will then be pertinent to provide definitions for the two elements just mentioned:

A unit of account is a quantity of economic value in terms of which we can express the economic value of all goods and services in the economy.
A medium of exchange is an item whose value is always equal to the unit of account (or multiples thereof), and which is convenient to use in trade and easy to store. It is accepted in all payments not for final consumption, but for the purchasing power it gives.

Since media of exchange are present in everyday transactions and are often physical objects or have a physical counterpart, they are what the public commonly refers to as “money”.

As we see, the definitions above change the usual perspective for understanding money. Instead of considering unit of account and medium of exchange as two functions which an item called money satisfies, we consider the unit of account and the medium of exchange as two separate kinds of items. Only the latter of these two may be a physical object.

The approach describes rather well the usual practice among historians of money, who commonly refer to the unit of account and the media of exchange as separate entities. Economists, on the other hand, have not warmed up to this approach with only a few exceptions – most notably, Keynes (1930). Pity, for as I hope to demonstrate in what follows, this way to describe money is quite superior.

The next four sections of this paper review the fundamental characteristics of each of the four phases of monetary evolution referred to above, each time emphasizing what serves as the unit of account, what media of exchange are available, and how societies move from one existing arrangement to the next one. Most of the historical evidence concerns Western civilization – while non-Western monetary traditions are numerous and important, it is the Western approach which eventually becomes the standard all over the world.

2. First Phase: Early Monetary Systems

Adopting a unit of account brings substantial benefits to a society. A unit of account allows for the value of all items to be expressed in a common measure, and for these values to be added and
subtracted from each other – facilitating exchange, planning, and book-keeping. It also makes the handling of debts much more convenient, and makes possible the calculation of interest on such debts.

Through most of human history, the quantity of economic value which served as the unit of account has been defined as the value of one unit of a certain commodity. Early examples are the value of a head of cattle, a bushel of grain, or a weight unit of metal – this last option eventually coming to supersede all others. The very earliest written records in human history, dating from the 3rd millennium BC, make abundantly clear that the value of goods and services was routinely measured using as unit of account the value of barley (Mesopotamia), copper (Egypt) and silver (Mesopotamia, Egypt, and eventually the whole Near East). It is likely that the use of a unit of account predates the invention of writing in many societies – as best illustrated by William H. Furness’ classical study of money in the Pacific island of Yap (Furness 1910).

Once a unit of account has been established, society has essentially two alternatives for furnishing itself with media of exchange. First and most obvious, the commodity whose unit value serves as a unit of account may itself be a medium of exchange. Whether this alternative is employed, and to what extent, depends on the physical characteristics of the commodity in question and on its availability. Indeed, in addition to having a value which is always equal to the unit of account, a medium of exchange needs to be convenient to use in trade and easy enough to store. Heads of cattle, while a valid unit of account, make a poor medium of exchange in most circumstances. Measures of grains would be a more viable choice, while metals in general, and precious metals in particular, are the best medium of exchange that nature has to offer.

Clearly, the choice of the unit of account may be guided by the suitability of the underlying commodity as a medium of exchange – which explains why societies everywhere in the West eventually converge on the value of silver or gold as their unit of account. Between the 3rd and 1st millennium BC, silver in
bullion form – often cast in the shape of rings, bars, and springs – becomes a medium of exchange of universal acceptance in Western civilization.

There is, however, a second alternative for supplying media of exchange to a society. A debt denominated in the unit of account satisfies the condition of having a value equal to a certain multiple of this latter one if the issuer is trustworthy (in other words, a debt of four ounces of silver is worth four ounces of silver). If such a debt is accepted as a payment for goods and services in transactions which do not involve its issuer, we may say the debt in question is being employed as a medium of exchange.

To be clear, debts denominated in the unit of account are created routinely when goods or services are sold on credit or when the commodity that defines the unit of account has been borrowed. Such debts would typically not be media of exchange since the beneficiary would not be able to use them as a means of payment to a third party. If the issuer of the debt is known to be trustworthy, however, this latter operation becomes feasible – and the debt in question begins to circulate as money. We may refer to this second family of media of exchange as credit money.

Credit money is very far from being a recent innovation – in fact, its origins may be traced all the way back to the 3rd millennium BC in ancient Mesopotamia. Assyriologists have documented debt records printed on clay tablets where the beneficiary is not identified by name, the debt being payable to a tamkarum (a merchant or trader). Experts agree this formulation was intended to facilitate the transfer of the debt by making it payable to the bearer – which, in turn, makes it likely that such debts circulated as money.¹

It is important to realize that the adoption of a unit of account and the introduction of media of exchange are separate phenomena. A unit of account may be introduced in all transactions and debt calculations at no cost once society has agreed on its value (a process in which the state is likely to play a leading role). Introducing sufficient media of exchange is quite another matter. If these take the form of precious metals, we are constrained by the quantities available – gold and silver are valuable precisely because they are rare. If these take the form of credit money, we are constrained by the existence of widely trusted debt issuers, by their willingness to issue debt, and by the quantity of debt they are able to issue before they cease to be trusted. Furthermore, whereas precious metals are typically accepted by all and everyone, credit money through most of history has been accepted only within limited circles – typically, among large merchants and government officials.

Fortunately, a monetary system may well function with a unit of account and few or, at the limit, no media of exchange: all goods and services will be priced in terms of a common measure, but actual payments will take place using whatever items are acceptable to the seller. This is precisely what we witness taking place in the following ancient Egyptian court record, dated to the 13th century BC. Erenofre, a housewife, has bought a slave for a price of four deben and one kite of silver (both ancient measures of weight). In order to prove to court she has made good on her payment, Erenofre lists the items given to the seller to settle the transaction:

"1 shroud of Upper-Egyptian cloth, makes 5 kite of silver;

1 blanket of Upper-Egyptian cloth, makes 3 1/3 kite of silver;

1 djayt-garment of Upper-Egyptian cloth, makes 4 kite of silver;

..."
The list continues and includes bronze vessels, beaten copper, a jar of honey and more. As we see, all items listed come with a price in terms of weight units of silver – this unit of account was indeed in widespread use in ancient Egypt. At the same time, actual silver acting as a medium of exchange is nowhere to be seen.

As it turns out, the above situation is representative of the first phase of monetary history, which runs from the earliest written records during the 3rd millennium BC to the invention of coinage around the 6th century BC (Schaps 2004, pp. 42 – 79). In ancient societies throughout the Near East, a unit of account based on a commodity was employed to measure the value of all things, but media of exchange were often rare and payments could be made using a variety of items – as explained by assyriologist A. Bongenaar, when it came to making payments “every commodity served the purpose” (Bongenaar 1999, p. 162).

This scarcity of media of exchange should not lead us to believe, however, that most exchange took the form of barter transactions facilitated by the existence of a unit of account – as in the case of Erenofre above. As economic and social historians have in fact documented, in the absence of a medium the most expedient mechanism to organize exchange is to resort to bilateral credit. Since bilateral credit transactions may be accumulated in opposite directions, final settlement using a medium of exchange (or any other acceptable item) would be required only for the net amount due by one of the parties at some reckoning date. This net amount would only be a fraction of the gross value of all transactions, greatly reducing the need for payments. There is solid evidence for the importance of credit transactions in ancient times (Harris 2008, p. 191; von Reden 2010, p. 27 and p. 128).

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2 On this example see Schaps (2004, p. 39) and Grierson (1977, p. 17).
3 Of course, this does not preclude that in certain sectors of the economy the use of media of exchange was quite widespread – for instance, merchants engaged in the long-distance trade between Mesopotamia and Anatolia regularly settled transactions in silver (Veenhof 1999, p. 55).
Goetzman 2016, p. 100), and overwhelming evidence that reciprocal bilateral credit was the dominant method of exchange during the European Middle Ages – as we shall see in what follows.4

3. Second Phase: The Dominance of Coinage

What I shall refer to as the second phase in the history of money runs from the invention of coinage at the turn of the 6th century BC to the early modern period. It is characterized by the status of precious metal coins as a universally-accepted medium of exchange – a medium of exchange whose manufacture is in the hands of the state.

There would be not much to say about coinage if, as argued by economists from Adam Smith to the present, precious metal coins should be understood as metal in standardized form; the state acting to “ascertain not only the fineness but the weight of the metal” (Smith 1776, p. 30). This was indeed the case by the time Smith and the classical economists of the 19th century directed their attention to the subject, but as a description of how coinage transformed monetary systems over the two thousand years following its introduction it leaves us short-changed.

The fascinating thing about coinage is that its introduction and widespread acceptance changes not just the medium of exchange, but the unit of account: instead of measuring the value of all things in terms of weight units of metal, society measures value in terms of units of coinage. The two are not the same as soon as metal in bullion form ceases to be accepted in lieu of coins. The act of coining serves not so much to ascertain that some given amount of metal is contained in each coin, but to create an object which, albeit made of metal, is different from the metal it contains.

4 In addition, bilateral credit may serve to organize exchange not only in the absence of a medium of exchange, but even in the absence of a unit of account. If that is the case, barter would never have been the dominant mechanism for exchange in human societies – an opinion which is supported by research in anthropology (Humphrey 1985, p. 48).
For the state, the benefits from manufacturing this form of money were numerous. It improved trade within the land by making exchange swifter. It projected the power of the sovereign to all corners of the realm – which is why most coins feature the head of the sovereign on one of its sides. Most important, it provided an invaluable source of revenue in times of need. Indeed, coins may be initially introduced for a face value which equals the value of their metallic content. Once they are widely accepted, however, the state could issue coins with a lower metallic content under the same name. As long as such lighter coins are accepted at the same value as their predecessors, the state would make a profit. No wonder that, since its invention, minting has been regarded as the exclusive privilege of the state.

The public, however, has never been indifferent to the value of the metal in their coins. After all, if for any reason the coins would cease to be accepted they would then be valued only in accordance to the metal in them. The second phase in the history of money is thus characterized by the opposing interests of the state and the general public, the first one pushing for a coinage with little intrinsic value and the second one demanding coins which approach the ideal of metal in standardized form. The winner of this confrontation was, more often than not, the general public.

Indeed, the state had but two weapons to try to impose its will. The first one was to declare that all coins produced had to be accepted at their face value regardless of metallic content. This worked poorly since the state could be draconian, but it was not omnipresent: it had no means to police all economic transactions. The second one was to accept coins regardless of their metallic content in all payments to itself – in other words, to accept its own coins for the settlement of taxes. This worked better, in so far as having the capacity to discharge taxes is itself of value.

The ultimate word on the matter, however, lay with the public. The public could easily refuse a coinage it deemed unreliable and adopt one of several outside options: the coinage of another realm, metal in bullion form, and forms of credit money denominated in a currency other than the local one. What is more, outside the frontiers of the state coins would only be accepted for the metal in them – no
value in having the capacity to discharge taxes where taxes are not due. Since the state itself needed to pay for goods and services abroad, in particular the services of soldiers and mercenaries at war, coinage of low intrinsic value was to a certain extent self-defeating.

The outcome of this confrontation was an implicit social agreement in which the value of coinage remains close to the value of its metallic content during normal times, but large debasements are possible in times of dire need. In England, a well-administered kingdom for its time, the difference between the value of coins and their metallic content was "almost always less than 10 percent, and generally less than 5 percent" over the Late Middle Ages and into the 16th century (Desan 2014, p. 101). Once the cost of minting was deducted, this provided the sovereign with a tidy but unspectacular profit. On the other hand, large debasements could be observed in the Continent where, unlike England, the threat of foreign invasion forced sovereigns into attempting desperate measures and the public into accepting them. Between the years 1285 and 1490, France went through 123 debasements, the largest of which reduced the metallic content of the coinage by 50% (Rolnick et al. 1996, p. 793). Sovereigns would not have engaged in so many debasements had they not been profitable, and they would not have been profitably had coins always circulated for the value of the metal in them.

To conclude, during this second phase of money’s history there is a shift in the unit of account from the value of a weight unit of metal to the value of a unit of coinage. This represents no change if coinage circulates for a value equal to its metallic content but, as we have seen, that was not always the case.

Coinage also takes over from bullion the role of universally accepted medium of exchange. As was the case for bullion, however, universal acceptance does not imply universal availability: coinage was often rare during these two millennia. Add to this the fact that forms of credit money, while available, were not only in limited supply but also of limited circulation, and you have a society which must rely on bilateral credit for most economic exchange. And indeed, the evidence is conclusive as to the
importance of credit during the Middle Ages and into the early modern period, as the following
description of exchange in 13th to 17th century Europe makes clear:

"[Credit] threaded through the economy from the large purchases of international merchants
to the survival purchases of the urban poor. Consumers did not pay for their bread, or candles,
or shoes, or meat. They ran tabs with the shopkeepers. Cloth traders bought wool on credit,
 had it worked into cloth by weavers on credit, then sold it at the international fairs and urban
entrepot towns on credit. Vintners bought wine on credit and sold it to tavernkeepers on credit.
Individuals secured services from barbers, apothecaries, and wet nurses on credit. [...] Pre-
modern commerce revolved around credit, and likely no one was spared the need to be debtor
and creditor."

Kadens (2015, p. 2431-2)

According to one estimate, as much as 90% of all exchange by value was transacted by means of
bilateral credit relationships in early modern England (Muldrew 1998, p. 100). The shortage of media
of exchange which had characterized monetary systems since their very beginnings could not be
solved as long as their supply was constrained by the availability of precious metals.

4. Third Phase: The Rise of Credit Money

The third phase in the history of money begins in England during the last years of the 17th century and
reaches Europe, and later the world, about a century later. It sees the development of credit money
into a medium of exchange which could match coinage in its acceptability and exceed it in its
availability. This transition is important because it allows society to move away from bilateral credit,
and the constraints it imposes, as its main method of exchange.
Bilateral credit relationships in which opposing credits cancel each other is a practical method to organize exchange, but not without its limitations. First, it requires trust between the partners - legal enforcement procedures may substitute for trust only to a limited extent. Second, it allows for the netting out of transactions between only two persons in the economy. With reciprocal bilateral credit, we are acquiring the production of a given person by supplying that same person with our own production, even if the different transactions need not take place at the same time. We are thus some way off from the far more flexible system which a medium of exchange renders possible. With a medium of exchange, we acquire the production of anybody in the economy by supplying our own production to anybody else. The limitations of bilateral credit are increasingly constraining as economies grow, societies become more diversified, and transactions become less personal.

Over the many centuries since its invention in ancient Mesopotamia, credit money took a variety of forms. Best known to us are the tally stick, used to record debts private and public throughout Europe and the Near East probably since ancient times, and the bill of exchange of the late Middle Ages.\(^5\) Important as they were, none of these forms of credit money was used beyond a circle of large merchants, wealthy individuals, and government officials. You could not command labour using credit money as it was not a means of payment commonly accepted in the markets where common people shopped.

A major shift was thus required for credit money to match coinage as a universal medium of exchange, a shift which comes about via the joint actions of the state and a new type of institution whose importance in the history of money from that moment onwards is second to none: the modern bank.

\(^5\) See Henkelman and Folmer (2016) for a history of the tally stick, and Boyer-Xambeu et al. (1994) for one of the bill of exchange.
Banks first appear in Athens by the 4th century BC and were well developed in ancient Rome. Their business consisted in the acceptance of deposits of coinage from the public, the provision of payment services from these deposits, and the use of at least some of the coins received for lending. We may refer to this business model as ancient banking.

Modern banking, which develops from the 12th century onwards in Italy, is quite a different business. It relies on the legal notion, first developed by the Romans, that a depositor of coinage at a bank surrenders ownership of these coins in favour of the bank – receiving in return a debt against the bank for the value of the coins (depositum irregulare). This frees the bank to use the coins as it sees fit, an operation which would be illegal under a standard deposit contract (depositum regulare).6

A bank deposit is therefore nothing more than a debt issued by a bank in favour of a member of the public and, like any debt, may plausibly be accepted by third persons as a payment for goods and services, at which point we would call it credit money. Observe, however, that if bank deposits are mere liabilities banks will be able to issue them under circumstances other than the reception of coins. In particular, banks may issue these liabilities when granting a loan – thus financing borrowers via money creation rather than money intermediation. This is the business of modern banking, which is well-established in several European cities by the late Middle Ages.7

This bank-created money had one characteristic which rendered it more attractive than other credit money alternatives: banks promised to exchange it for precious metal coinage on demand. Except under exceptional circumstances, banks were able to deliver on this promise. Bank credit money was thus a well-received addition to the range of credit money available in early modern economies. Like

its predecessors, however, it was not a form of money which circulated among the general public. That, however, was only one step away.

The critical change took place in England in 1694, when a consortium of private interests received royal approval to form a bank with the objective of lending to the government. Lending to the government by transferring coinage was of course nothing new, and there are even precedents of banks lending to the government by issuing liabilities (De Roover 1974, p. 215). The English operation, however, was new in three important respects. First, the bank liabilities were printed on paper and payable to the bearer – a recent innovation going by the name of bank notes which made payments with this form of credit money particularly easy. Second, the government used the notes to pay its suppliers, distributing them far beyond their usual circle of circulation. Third and finally, holders of the notes demanded the government to accept them back as a payment of taxes – which was agreed.\(^8\) The notes of this new banking institution, which went by the name of the Bank of England, became the only acceptable means of payment for taxes other than coinage. The stage was set for the rise of credit money.

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Banks differed from previous issuers of credit money in one important respect: their business was money creation (or, to be more precise, charging interest on loans financed via money creation). Here was a type of institution with a clear interest in producing more money.

Bank notes became the most important medium of exchange in Britain during the 18\(^{th}\) century, taking over Europe and the rest of the world from the 19\(^{th}\) century onwards. Since their issuers need to hold

\(^8\) See Desan (2014, chapter 8) for a detailed description of this episode.
precious metal reserves for only a fraction of their total value, bank notes make possible the creation of a money supply beyond the limits of what had been possible so far.

Writing in 1776, Adam Smith approvingly estimates that fully three quarters of all money in circulation in his native Scotland is in the form of bank notes (Smith 1776, p. 316). For Britain as a whole, about two fifths of these bank notes were issued not by the Bank of England but by other commercial banks, convertible into either coinage or Bank of England notes (Desan 2014, p. 328). This arrangement was to be widely copied during the 19th century, in what Raymond de Roover calls "the triumphal conquest of the European continent by the English banking system" (De Roover 1974, p. 233).

After this, bank-issued credit money goes from strength to strength. Even more significant, its locus of production shifts from a central institution under strict government oversight acting in the interest of the public to a large number of purely private enterprises acting in their own interest.

Indeed, the Bank of England was the blueprint for Central Banks all over the world, and the institution became linked to the government as its role in preserving monetary and financial stability was progressively understood. Governments then moved to eliminate the issuance and circulation of bank notes by private institutions – in Britain this takes place with the Bank Act of 1844. In so doing, governments wished to keep control over what had become the most important form of money in the economy, and ensure its convertibility by keeping its production in line with existing reserves.

What the Bank Act of 1844 did not do, however, was to restrict the production of the other form of credit money issued by banks - bank deposits. Banks would still be allowed to create bank deposits either on receipt of currency or, far more important, whenever granting a loan. Fatefuly, it was money in the form of bank deposits which eventually takes over the economic sphere as technological and institutional improvements render it a more convenient means of payment. Bank deposits, which stood at only 10% of the money supply of England and Wales in the year 1800, become 55% of the
total by the year 1844 and an already dominant 85% by the year 1913. Today this figure stands at 97%.\(^9\)

The third phase in the history of money is thus characterized by the development of the media of exchange still in use today. Paradoxically, the development of these modern media is accompanied by a renewed insistence in the use of precious metal value as a unit of account. Once again led by Britain, country after country proceeds to define their unit of account as the value of a certain quantity of metal which was not to be tampered with: coinage debasement was regarded as no better than barbaric now. By the late 19\(^{th}\) century all major economies converge on the use of gold for this purpose, in a system known to history as the Gold Standard.

This monetary orthodoxy characterizing the definition of the unit of account may itself result from the increased reliance on credit money as a medium of exchange. The public was willing to accept a form of money with no intrinsic value, but only if its convertibility into precious metal, or coinage of full metallic content, was thrown into the deal. Equally important, the possibility of producing money in the form of Central Bank notes in order to finance the state made coinage debasements unnecessary.

5. **Fourth Phase: Contemporary Monetary Systems**

As the world enters into the 20\(^{th}\) century, the monetary system described in the previous section had reached full maturity. It was a three-tier system, with the unit of account defined in terms of the value

\(^9\) See Bogaert et al. (1994, p. 274) for the historical figures and McLeay et al. (2014, p. 15) for the present-day figure.
of gold, credit money issued by the Central Bank and convertible into gold, and credit money issued by commercial banks and convertible into Central Bank notes. It ensured price stability thanks to its gold anchor, while giving flexibility thanks to its use of credit money as media of exchange. And, quite surprisingly, by the 1930s it had been abandoned by all Western nations.

The Achilles’ heel of the system was of course gold convertibility, which had to be discontinued in times of national emergency when governments were forced into producing money far beyond the limits permissible by existing reserves. Once the emergency had passed, a normal state of affairs could be regained by bringing money out of circulation via fiscal surpluses – a painful affair. Following World War I, and with the Great Depression looming large, Western nations decided the political and social costs of maintaining convertibility were too large to bear.\(^\text{10}\)

When convertibility is abandoned, what becomes of the monetary system? Central Bank notes and bank deposits continue to be credit money: debts denominated in terms of the unit of account. The unit of account, however, is no longer the value of a certain quantity of precious metal; it is a quantity of economic value with no physical counterpart. An immediate consequence is that nothing stops the unit of account from falling in value against good and services – and indeed, inflation rates typically increase following this transition.\(^\text{11}\)

But the media of exchange also suffer a substantial transformation. Until then, all forms of credit money shared the characteristic of being ultimately payable in the physical object that defined the unit of account, which was legal tender. Once convertibility is abandoned, Central Bank notes become the only form of legal tender. Thus, while bank deposits continue to be debts payable in Central Bank

\(^{10}\) Redish (1993) and Galbraith (1975) offer two accounts of these events. Convertibility was subsequently revived in a restricted form under the guise of the Bretton Woods system, which was finally abandoned in 1971.

\(^{11}\) As an example, consumer prices in the United States roughly double over the 50 years before 1971, whereas they increase by a factor of 6.5 in the less than 50 years since then (Federal Reserve Economic Data).
notes, the notes themselves are debts which are only payable by means of other notes. A very particular form of debt indeed.

Finally, it is important to consider why these debts, which give right to nothing other than other debts, will continue to have value. As many economists have pointed out, the value of these liabilities derives from their acceptability as a means of payment – I accept worthless pieces of paper as a payment for my labour because I trust their further acceptance by my grocer, landlord, and car mechanic. The situation resembles a purely self-reinforcing equilibrium among private agents – and has been analysed as such by a branch of the theoretical literature in economics.\textsuperscript{12} That analysis, however, misses a central point. Modern forms of credit money are given value not by the joint actions of a large number of private players, but by the joint actions of these private players and the state. The state plays a crucial role in coordinating expectations about the future acceptability of this money by promising to receive it as a payment for taxes. As we may recall, credit money first gains widespread acceptance on the back of the joint pillars of convertibility into precious metal and acceptance for tax payments. While the first of these two ceases to apply during the first half of the 20\textsuperscript{th} century, the second one continues to play a role in sustaining the public’s trust in contemporary forms of money.

6. Concluding remarks

The monetary system that prevails today, whose long-run evolution we have charted in the preceding pages, has some remarkable features. Our supply of money depends on the willingness of private banks to issue liabilities to finance borrowers, and on the willingness of these borrowers to get in debt. This method of producing money has rarely led to shortages, which was the usual disadvantage of previous metal-based regimes. In fact, we now suffer from the opposite problem: periodic episodes of rapid money creation, excessive build-up of private debt, and debt-fuelled speculation. The recent

\textsuperscript{12} Menger (1892) is the original source. A formal exposition was given by Kiyotaki and Wright (1989).
empirical literature has been quite unanimous in pointing at rapid credit creation as the best predictor of financial crises.\textsuperscript{13}

It is beyond the scope of this paper to discuss how the current system could be improved, and whether elements of previous monetary regimes may help in this task. All I can say is that such a discussion is necessary, and cannot be held in ignorance of our monetary past. Understanding the history of money today is perhaps more relevant than ever.

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