History Notes **by William P. Meyers**

graphic: Peter Veres

History of Money

Archeologists have found evidence of trading by humans that predates civilization. By the time writing was invented, trade routes spanned Africa and Eurasia. Money can be defined as anything that facilitates trade by representing the value of trade goods. Which is why most money today is really just "virtual money."

Money evolved from the standardization of goods that were traded. A certain volume of rice or other grain, or weight of some metal, would become well-recognized as a standard of value.

The earliest money is often said to be metal coins, but standard ingots of metal long predated such coins. Bookkeeping and accounting also predated coins. Today we are inclined to think of coins or paper currency as being the exemplars of money, but that is a misleading prejudice. By keeping an account (on knotted ropes, clay tablets, or paper) of valuable items, in effect money was created if the account could be transferred. Despite the antiquity of such accounting, failure to understand the representational nature of money confused economic thinking in the past and confuses many people even today.

In the 1600s, colonial plantation owners and traders were familiar with transferable debt notes, which were, in effect, usable as money. But trade was often denominated in standard weights of commodities like tobacco or whiskey. Colonies, and later states, also experimented with issuing paper (fiat) money when metal (commodity) money was in short supply. During the Revolutionary War the phrase "Not Worth a Continental" came from the perceived lack of value of paper money issued by the rebel Congress.

The main problem with any form of money, whether gold, wampum, dollar bills, or electronic dollars, is maintaining its value in relation to goods and services. Too much gold from Peru and Mexico in the 1600s led to a drop in the value of gold in Europe, which caused inflation. A shortage of gold and silver led to deflation and economic recession in the United States in the late 1800s. Too much paper money can be printed by a desperate government, causing inflation.

But paper money became increasingly less important as the 20th century wore on. We now have very little paper money compared to the trade in goods and services that takes place in the US, or with foreign nations. Most money is in accounting systems, now kept in electronic form by computers. Today people can live in the United States without using any paper money. This has led to a new level of convenience. It has also made possible the pyramiding of money into a virtual economy through speculative investments including credit default swaps and collateralized debt obligations. This has not only thwarted many of the 20th century systems put in place to keep the money supply elastic enough to accommodate economic growth without severe inflation or deflation, but it has also allowed the economy to get totally out of control when regulators ignored the dangers inherent in these new forms of money. The housing bubble was the catalyst that brought down this highly unstable casino economy. We are now living with the severe recession that has resulted.

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