Book Review

Money: The Unauthorised Biography

Author
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Felix Martin

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By Richard P. Greenfield

BitCoins are not mentioned in Felix Martin's new book *Money: The Unauthorised Biography*, but their omission is understandable. The book would already have been submitted and well into final edit when the BitCoin story broke large. When the paperback edition is published perhaps the author will have a chance to add a chapter, for BitCoin — a currency based solely on an uncrackable algorithm — fits the schemata and patterns that he lays out concerning money.

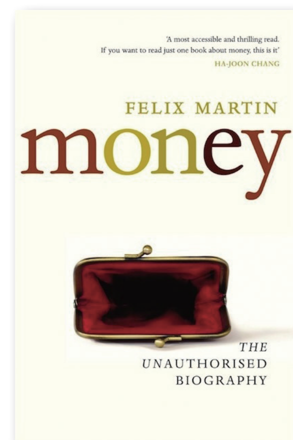
The book begins with an academic paper written by an American about the currency used on the Pacific island of Yap. Yap is remote, at one time almost isolated, with little agriculture and three main products: coconuts, fish and sea cucumber. Classic economics suggested that the only kind of economy that could exist would be barter. Classic economics was wrong. Yap had money, large carved stone tablets called *fei*, most large enough to require two or more adults to lift. Most *fei* were visible, so a "credit check" could be done visually, but not all were. In one case, an extremely large and valuable *fei* had sunk offshore in a shipwreck. Even though it was not recoverable by any means known to the islanders, it was treated as though it was on land. Everyone knew it was there and that was enough.

The big stone tablets were rarely moved. What moved around the island were notations about this or that transaction. The islanders had not just developed a system of money, they had developed one of credit as well.

The paper, written by William Henry Furness III, was read and noticed by British economist John Maynard Keynes. Keynes noted, "Modern practice in regard to gold reserves has a good deal to learn from the more logical practices of the island of Yap."

We tend to think of the past in terms of coins "hard money" — golden guineas, pieces of eight, etc. This is natural since coins survive the ravages of time better than paper, papyrus, wood or even clay ledgers. But as the legal maxim holds: *Absence of evidence is not evidence of absence*.

Money, in a more modern sense (standardized coinage, systemic use, etc.), first appeared in ancient Greece. There is considerable archeological evidence that more complicated systems than simple barter were in use long before. This is a point that fits the record of civilization, since the earliest cities date from around 7,000 BC and a very specific part of that development was the city as *entrepôt*, for sales or exchanges.



Setting up a monetary system is not simply a matter of finding some metal and having stamps and dies. There must first be both the need for currency and agreement on the value of the coins (because coins did come before paper money in general circulation). There also has to be access to the material the coins are made of (in ancient times bronze, gold and silver).

The value of the raw material of coinage has been the subject of monetary crises across the centuries and across the world. One crisis cited by Martin involved the amount of silver in British coins. That is only one example; it has happened whenever the price of the underlying metal exceeded the face value of the coin in any place that was convenient to transport the coins for smelting into bullion (e.g. Britain to Europe on and off over the centuries). It has also happened when the trade balances between countries outstripped a particular country's ability to produce adequate coinage (this happened to both Britain and Japan trading with China, though in different centuries).

The traditional method of dealing with this has been to recall coins after a certain time and issue new coins minted at values that are more reflective of the underlying base metal values. In effect, that meant a revaluation of coinage. It has not always been a downwards valuation. There are exceptions: in World War II, the United States needed nickel, which was extensively used in arms production. For three years, from 1942 to 1945, the nickel coin was made from an alloy of nickel, manganese and silver, giving it a higher base metal value.

This is not only a historical problem, nor one that only involves precious metals. Currently the cost of producing a nickel in the US far exceeds the worth of the coin, and the same is true of the one yen coin in Japan.

As Martin demonstrates, the emergence of a money economy is not due simply to the access to metal or acceptance of value in exchange. There are social changes also, that echo across the centuries, and the questions that were raised then have, in almost

every instance, modern analogues.

In Greece, the emergence of a monetary system replaced what had been a system of barter, exchange and religious observance and obligation. It is no coincidence that the New Testament includes a passage about Christ being questioned about paying taxes to the Roman authorities. The conflict between tradition/religion/community on one side and the values of a monetary economy on the other was already evident (and Christ's answer "Render unto Caesar" an artful construction as it is did not dispel the questions that echo through the millennia).

On the contrary, Karl Marx's comment on the effects of capitalism on traditional modes of production and labor — "All that is solid melts into air" — could have been written in ancient Greece, or Rome, or in feudal Europe, because in all those places the emergence of monetary systems disrupted and ultimately replaced more traditional but less efficient systems.

It is one of Martin's keenly understated points: how quickly the questions arose and how long they have persisted. Should a man be able to pay money instead of giving a portion of his crops, or days of his labor, to the temple (or church or mosque)? Should a man be able to pay another to take his place in military service (a question that persisted in the US right up through the American Civil War)?

In Europe in the Middle Ages the Catholic Church tried to regulate social and economic activity by declaring money lending a sin, by promulgating sumptuary laws, and by the occasional purge of worldly goods (such as the infamous "Bonfire of the Vanities" in Florence). In the very short term it worked, but, as Martin shows, all of Europe, Catholic and Protestant (after the Reformation), was simply too tied into trade with all it entailed for anything else to happen.

Kings could give and take titles, expropriate estates, wage wars of conquest but in the end, as Talleyrand told his sovereign Napoleon Bonaparte, "Sire, you can do everything with a bayonet except sit on it." Kings, too, ultimately have bills to pay. It is right there that Martin's book really takes a wonderful turn.

Coins and bullion were never easy to ship. The wreckage of Spanish treasure galleons and other legendary shipwrecks strewn across the seas tell that story. Gold, platinum and silver (the latter was only discovered at the beginning of the 19th century and only used in general coins in Russia in the 1800s) are heavy. In the time before trucks or trains moving large quantities of coin or bullion over land routes required very precise logistics and security.

There was another way. Local banks began brokering their loans to larger banks (local to regional to international). Since banking circles were very close-knit, and the players all known to each other, each had the best incentive to perform their own kind of due diligence checks to make sure that the bills they were selling (most usually the receivables on a particular loan or loans) were payable and that the client's credit was good.

This became more than a simple way to make money; when a bank's clients were doing business in a particular location (Europe in the Middle Ages was not only about countries but about city-states like Venice and Florence, each with its own currency) it could then ensure that it and its clients could be paid in whatever the particular coin of the realm was.

It was not a perfect system — banks failed, clients defaulted on loans, fortunes were made and lost. Yet this one single development allowed the banks to move away from reliance on sovereign money and to conduct business without seigniorage. (Seigniorage is the money the government makes from making money; the difference between what the government spends to mint a coin or print a bill as opposed to what it can charge for that coin or bill.)

Governments are always reluctant to give up sources of revenue (even now seigniorage is an important revenue producer for governments). Banks also, by law, must have a certain percentage of their assets in liquid sovereign money or government-backed bonds.

Thus, in no way is Martin predicting the immediate demise of sovereign money. His point is more subtle and far reaching. The "private money" exchange of bills between banks and the growth of international banking in its earlier incarnation proved to be an important check against the tendency of kings and dictatorships and democracies to overreach and overspend.

This had already emerged during the English Civil War and it would resurface time and again afterwards. For many years, it produced a "grand bargain" between banking and governments that protected the interests of both, and of ordinary citizens.

The recent financial crises in Europe and the US where governments bailed out banks at taxpayer expense with no commensurate civil or criminal penalties or even government share of ownership are proof to Martin that the "grand bargain" is dead and that we are now in a moment past even regulatory capture where the banks are dictating to governments what they must do (and still at taxpayer expense). Without polemics Martin shows just how unstable that situation is and calls for a new grand bargain, one that will protect the interests of all parties without placing the moral hazard of risk on those who had no say in any of the decisions that led to a loss.

To his credit, Martin only sketches out some ways reform might be achieved. His sense of urgency is always understated, but nonetheless powerful for that. There are many books about the details of the last monetary crisis, and the one before that going all the way back. This book rightly celebrates the achievements, and rightly warns that no system in the modern world can sit and rest on its laurels. JS

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