Introduction

One of the surprising phenomena in world history is the success of money. Money is more easily lost than gained; it requires a host of laws, regulations and controls to work and have value; in the form of coinage it costs something to be produced; and – above all! – it makes people dependent on anonymous authorities such as governments, federal institutions and central banks. Money destabilizes wealth and social relationships, and transforms tangible, useful property into mere options for the future. While it has created immense riches for some, and reasonable well-being for many, it has also created more extreme forms of poverty and the most spectacular economic crises the world has ever seen. Rather less surprisingly, there has been much resistance to monetization, and many political thinkers whose views were influential in other respects had serious objections to the use of money.[1]

There is the other side of the coin. As Aristotle in his imagined history of the origins of coinage writes:

> When mutual help grew stronger and people imported what they needed and exported what they had too much of, coinage came necessarily into use. For the things that people need by nature are not easily carried about, and hence men agreed to employ in their dealings with each other something which was intrinsically useful and easily applicable to the purposes of life, for example, iron, silver and the like. Of this the value was at first measured simply by size and weight, but in the process of time they put a stamp upon it to save the trouble of weighing to mark the value (*Pol.* 1257a 31–8).

The thoughts of Aristotle still resound in a famous passage by John Stuart Mill (1806–73) defining the advantages of gold and silver coinage:

> By a tacit concurrence, almost all nations, at a very early period, fixed upon certain metals, and especially gold and silver, to serve this purpose [of purchase]. No

[1] We shall return to the critics of money in the epilogue of this book.

other substances unite the necessary qualities in so great a degree, with so many subordinate advantages . . . They were the most imperishable of all substances. They were also portable, and containing great value in small bulk, were easily hid; a consideration of much importance in an age of insecurity. Jewels are inferior to gold and silver in the quality of divisibility; and are of very various qualities, not to be accurately discriminated without great trouble. Gold and silver are eminently divisible, and when pure, always of the same quality; and their purity may be tested by a public authority . . . To the qualities which originally recommended them, another came to be added, the importance of which only unfolded itself by degrees. Of all commodities, they are the least influenced by any of the causes which produce fluctuations in value.[2]

Money in the form of gold and silver coinage was so successful, according to Mill, because it is portable, imperishable, divisible, stable in value and easily hidden. It made value measurable and comparable and thereby allowed more complex transactions to take place over time and distance. It facilitated exchange and reduced the costs of transactions.[3] Socially, it created greater trust in the justice of transactions as it provided a means of recompense for the supply of goods and services as well as compensation for injuries and injustice.[4] It transformed simple markets into powerful distribution mechanisms. In its early history in Greece it liberalized labour relationships, warfare and politics as well as having made possible the first Western democracy.[5] Its anonymity and exchangeability at the same time increased the freedom of individuals, and choice.

And yet, the counter-intuitive assumption that the success of money was not quite as predictable as the story of its success suggests helps us to focus on the conditions of its becoming one of the most powerful instruments of human intercourse. If we assume that people sacrifice many valuable objectives in order to integrate money into their everyday lives, and that governments have to invent many regulations in order to keep the value of their currencies stable and functioning, we can begin to think about the stories behind the history of money. In whose interest was it to

[2] J. S. Mill *Principles of Political Economy* [1848]. London 1909, bk. 3, ch. 7.2.
[3] The more technical term 'transaction costs', frequently recurring in the following chapters, is borrowed from Neo-Institutional Economic Theory, where it refers to three forms of costs. According to Ronald Coase, who introduced the theorem into the debate, there are three categories: (1) search costs that occur when parties find out about relative prices, (2) costs that occur in the process of negotiation, such as the costs of reaching an agreement or drafting contracts, and (3) costs of uncertainty and complexity that occur in long-term contracts (Coase (1937); see also Williamson (1975); and Frier and Kehoe (2007): 117–19 for brief discussion).
[4] Thus especially Aristotle in a much-discussed passage of the *Nicomachean Ethics* (*EN* 1133a) with Meikle (1995): 129–46; and below, chapter 1.
[5] Schaps (2004) for each of these aspects.

use and improve the use of money? What kind of transactions benefited from money, and why? What kind of incentives, or incentive structures, supported the use of money? What rules of behaviour made monetary payment, monetary exchange and monetary wealth accepted forms of social interaction and status signification? Most of all, what political, social and cultural systems made certain forms of money acceptable and other monetary systems collapse? It soon turns out that in contrast to common perception money does not 'do' anything by itself. Through money the complexity of relationships, exchange and wealth increases as it links an ever increasing amount of transactions that without money are separate and distinct. But money is not a phenomenon unchanging over time. It develops as individuals, social groups and governments allow it to perform certain functions. Put more technically, money is ruled by human institutions, norms and social as well as political forms of organization. In order to understand the history of it, one has to understand the dependence of money on these institutions, norms and socio-political contexts.

MONEY AND COINAGE

Some important distinctions need to be introduced before we explore the development of money. Money, in contrast to coinage, has never been deliberately invented (either by traders, citizens or states), but comes into being as regular transactions are made by means of the same medium. When rents are regularly paid in grain, or bride prices customarily rendered in gold and silver, these media become forms of money. When different kinds of payments are regularly made with the same medium, and this medium itself becomes a desirable object for the purpose of exchange, the medium takes over additional monetary functions. If an obligation is not discharged, but remains pending as a debt expressed in terms of one particular medium, this medium also takes on a monetary function. When a payment or exchange is made, a common standard by which different items are compared in value helps to assess the equivalence of the payment or exchange. When any of these forms of payment become institutionalized, that is, many people make them in the same way, money comes into being. For convenience, therefore, money can be defined by four basic, but interdependent, functions.[6] It is a *means of exchange* if people make payments for goods and services; it is a *means of payment*, if people

[6] Polanyi (1977): 99, 104 f., 107–9; further functions are suggested by Einzig (1966): 444 f., 458–63; Schaps (2004): 12–15, and Seaford (2004): 16–20 for discussion.

Cambridge University Press
978-0-521-45337-0 - Money in Classical Antiquity
Sitta von Reden
Excerpt
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pay taxes, rents and penalties; it is a *store of value*, if people keep it in a treasure box, display it at home, or put it in a bank account; and it is a *unit of account*, if people compare the value of different goods on the basis of that medium, or account for debts, future payments, and so on. Yet still today new functions of money arise. For example, when investment companies began to provide loans based on the virtual money of investors speculating on the profits of tax relief or changing interest rates, they introduced a new function of money (let's call it money as a *means of virtual payment*).[7] As institutionalized transactions change over time (bride price is no longer paid, transactions with virtual money become more popular), concepts of money fluctuate alongside changing forms of collective behaviour.

In the past, people often used different media for different monetary purposes. Gold and silver, for example, were used as stores of value, together with salt as a medium of small exchanges and animal hides for larger transactions. Grain was used for the payment of rents and taxes, while at the same time other objects were used as accounting units or for the comparison of value.[8] Such forms of money are sometimes called *limited-purpose money* as they lack the complexity of functions all-purpose money fulfils. Such moneys also lack the capacity to be transformed into other monetary functions (so-called *fungibility*) which some monetary theorists regard as the essence of money.[9] Yet once again, the fungibility of money is never total, nor has there ever been any evolution from limited to all-purpose money. For example, in antiquity human beings (such as slaves) could be bought with money, but education, political service and warfare only gradually became paid jobs – much to the regret of conservatives like Plato and Isocrates. For a time within the medieval period, sins could be absolved with money, whereas sacred relics were regarded as impossible to be traded commercially. In more recent years, it has been debated whether the conditions of human life, such as health, blood or fresh air should have monetary value and thereby become subject to some supply-and-demand mechanism. Human labour can be purchased like sex and pleasure, but we resent the idea that human emotions can be obtained commercially.[10] Therefore, money is never used for 'all purposes' nor is it fully 'fungible'.

7 Arguably, this can be regarded as a form of using money as a unit of account. But as the loans are not stable sums, but dependent on speculative amounts, it ought to be regarded as a new function of money – which, incidentally, our legal systems do not yet fully control.

8 Appadurai (1986); and Parry and Bloch (1989), introduction, for some examples in an anthropological perspective.

9 Polanyi (1957): 264; see, however, Melitz (1970); cf. Seaford (2004): 18 f.

10 For these examples and, more generally, the politics of 'commodification', see the introduction in Appadurai (1986).

It is more helpful to consider money within social and normative contexts that bestow upon it, and prohibit, particular usages.

Moving on from the shifting sands of money, we find that there are special forms of money which are more readily defined. An exceptionally important one in Western history has been gold and silver minted into coinage. The first coins in ancient Greece were made of precious metal and carried an authoritative stamp which, as Aristotle accurately described, certified its weight and value. In principle, coinage can be issued by any authority, such as temples, individuals, states or firms, but in antiquity there was not much debate over who should have the right to coin. In ancient China, by contrast, it was an important issue whether governments or private entrepreneurs should have the right to issue coins.[11] Another issue not known from classical antiquity, but seriously considered in ancient China, was whether coins should be replaced by some other object or commodity. The fact that certain questions arose in one rather than another monetary culture shows that precious metal coinage, too, is not a natural consequence of monetary evolution, but a specific historical development.[12]

There were also other forms of money than coinage in antiquity. In archaic Greece, for example, coinage was a departure from the use of silver and gold units of weight used as means of payment and exchange in many public and private transactions.[13] In the fifth century BC, bronze and copper coins were a departure from the exclusive use of precious metal as money. The shift from precious to (some) base-metal coins was a conceptual challenge as the latter destabilized the value of money that so far had been linked to what was assumed to have universal value. In late-fifth-century Athens the emergency issue of (silver-plated) copper coins provoked an outcry like a moral disaster.[14] It was the practical solution to a pressing scarcity of silver, yet at that time raised the question of the value of money. How far should the state (or citizens) have the power to issue valid coins the value of which depended on political decision rather than intrinsic value? Given that the debased coinage did circulate, there must have been a new consensus, not acceptable to all, but generally promoted by the collective citizen body, that monetary value could be based on political decision rather than universal, or super-natural, qualities such as those residing in

11 Williams (1997): 155; a comparison of Mediterranean with Chinese traditions of coinage proves very instructive; Scheidel (2008); Schaps (2007).
12 Persuasively argued by Kurke (1995) and (1999).
13 E.g. Kroll (1998); (2001); (2008); and Kim (2001a and b).
14 Kroll (1976) and (1979) on these coins; von Reden (1995): 114–15 with Aristoph. *Frogs* 734–49 for the social implications.

gold and silver. The introduction of bank notes later in Western history represents a similar transformation promoted by the combined power of state authority and central banks. By this time, however, users had long become accustomed to promissory notes on paper as forms of money beyond coins. Cash-less forms of money such as transferable credit notes, cheques, or bonds, which make possible storage and transfer of money by means of written or electronic notification, have once again transformed notions of money, and shifted trust in the stability of precious-metal value (e.g. Mill, above) to a rather precarious trust in the stability of law and monetary regulation.[15]

MONEY: TERMINOLOGY AND CULTURE

Given the historical embeddedness of money, it is unsurprising that neither the Greeks nor the Romans had a term that precisely matches our word 'money'. Both languages had words for coins (*nomisma*/*nummus*), or cash (*argurion*/*argentum*: 'silver'), but the general terms *chremata* (resources) in Greek and *pecunia* ('cattle money') in Latin differed from our word 'money' (deriving rather arbitrarily from *moneta*, a cognomen of the goddess Juno in whose temple coins were sometimes minted). The Roman jurist Iulius Paulus (early third century AD), who for legal purposes attempted to define money, suggests that *pecunia* included not just coins but *omnes res*, all things. Thus he writes:

> The designation *pecunia* does not only include coinage but absolutely every kind of *pecunia*, that is, every substance (*omnia corpora*); for there is no one who doubts that substances are also included in the designation of *pecunia* (*Dig*. 50.16.178).

The fact that a lawyer felt the need to define *pecunia* beyond coinage shows that commonly *pecunia* was associated with coinage as much as money is associated with physical currency today. Similarly, when Aristotle discusses the art of money-making (*chrematistike*) he distinguishes it from another kind of *chrematistike*, the art of increasing the wealth of a household (*Pol.* 1257b40 ff). For clarification he calls the latter *ktetike* (the art of managing property) but the two were very close. This was so because *chremata* did not refer just to coins, but to all movable objects a household contained. In the *Nicomachean Ethics* Aristotle describes *chremata* as 'everything the value of which can be measured in terms of coinage' (*EN* 1119b26). Beyond the superficial identification of money with coins, both *chremata* and *pecunia*

[15] Hart (1986) for the gradual transformation of perceptions negotiating this shift.

were broader categories, just as nowadays money comprises more than coins, notes and plastic cards.

In antiquity, however, the concept of money was closely linked to valuable objects (*chremata/res*). And so monetary value, too, was considered to be the price (*time/pretium*) of objects that were purchasable. Since both Aristotle and the Roman jurists were well acquainted with price variation, monetary value was clearly perceived as a social rather than intrinsic factor of objects.[16] Moreover, as in both Greece (by the fourth century) and Rome base-metal coins were minted, it was the stamp of the coin rather than the intrinsic value of precious metal that was regarded as constituting the value of money. Paulus, once again, argued that monetary value was created by the public stamp (*forma publica*) rather than the fact that coins had a substance (*substantia*).[17] Rather more provocatively, Pliny the Elder called money *rerum pretia*, the price of things (Plin *NH* 33.1).[18] *Rerum pretium* was the value bestowed upon gold and silver in the first instance, but even in the case of precious metal was not beyond social influence. Debates over monetary value took place within the contested opposition between value by convention and represented by the power of governments on the one hand, and universal, sometimes supernaturally defined, value represented by the substance of metals and useful objects on the other. As stamped coins were money only within the boundaries of one political system, but monetary exchange took place across such boundaries, other valuable objects – *chremata, res, merces* (commodities) – had to be conceptually included into the category of money.

The value of modern money is based on central banks, international civil and banking law as well as technical conditions such as widespread literacy, the print industry, and electronic data transmission. This has created greater reliability of monetary transactions beyond national and political boundaries and thus brought about a notion of money that is less dependent on the intrinsic value of objects as opposed to state authority. Instead, concepts of money depend on the market, an (almost) global monetary network of transactions, an equally global economic culture, and central banks that fix exchange rates of national or local currencies. In antiquity international capital markets and international laws did not exist, while banks were run by private entrepreneurs whose international relationships depended on their own business contacts. State and social power over the value and supply of money were felt more strongly, while

16 Meikle (1995) for Aristotle's distinction between use value and exchange value.
17 *Dig*. 18.1.1 with Wolters (1999): 341–62; cf. Lo Cascio (1996).
18 Further discussed below in the epilogue.

highly exchangeable objects were readily included into the category of money. This does not mean that Greek and Roman money had not fully matured. Rather, different forms of economic and political organization, conditions of transaction, monetary institutions and forms of law suggested a narrower and at the same time broader notion of money than is current today.

MONEY IN THE ANCIENT ECONOMY

While functions and meanings of money are dependent on a wide range of social and cultural conditions, it is most strongly associated with markets and the economy. An economy may be defined as the production, distribution and consumption of things, each involving exchange, payment and storage of valuable objects as well as relationships and institutions which organize these activities. Indeed, as money has become the major means of interaction and communication in the economy, it has also become its major signifier: any relationship in which money is used is part of the economy, while monetary relationships are regarded above all as economic ones.

Ancient authors, too, associated money with economic exchange. But 'the economy' was not the same in antiquity as it is today.[19] *Oikonomia* in Greece referred to the task of managing a household, be it private, royal or public. It included strictly economic aspects, such as managing material resources, minting coinage and administrating finances, but also social aspects such as choosing and training a suitable wife and household staff. There was, moreover, no attempt to treat production, distribution and consumption as related activities that constituted an autonomous system linked through money and markets. Each had their separate social and political aspects which could not be dissociated from their material side. This was a matter both of perception and social reality. Labour relationships, for example, were frequently not regulated by money but in the form of personal dependence (slavery and long-term tenancies) or within the household where free labour was unpaid. Exchange and credit, moreover, were not always just monetary relationships but were embedded in relationships of patronage and friendship with social consequences in the interaction with neighbours and friends.[20] Although people identified a sphere of commerce which was identified above all with markets, harbours

[19] See for discussion the section 'Economic context' in the bibliographical essay at the end of this book.
[20] Millett (1991); Verboven (2002).

and money, and marked by special rules of behaviour, laws and sites, any connection of that sphere with production and consumption did not make immediate sense.[21] Despite the fact that there was something comparable to what we regard as economic activities, they were lumped into different categories. This created important differences between ancient and modern economic behaviour as well as perceptions of money.

Unfortunately, the problem has been discussed in highly ideological if not polemical fashion over the past decades. There are above all two major issues. Firstly, scholars have asked (in rather un-historical fashion) whether or not the ancient economy was similar to the modern, despite its obvious difference in size and complexity. This discussion has entered textbooks as the primitivist vs. modernist debate. And secondly, and more sensibly, it has been debated whether or not the ancient economy can be analyzed within the terminology and ideas of modern economic theories which were developed for modern market economies. This is the so-called substantivism vs. formalism debate.[22] Moses Finley, the most famous proponent of the 'substantivist' position, argued that the ancient economy was radically different from a modern (post-nineteenth-century) market economy and thus could not be understood within modern theoretical terms. Finley drew attention to the largely self-sufficient agrarian household as the major (social) site of production and consumption. As exchange was significant in cities only, and these cities, rather than being centres of production were places where wealth produced in the rural hinterlands was consumed, Finley attributed a very limited role to money.[23] Money for him was above all coinage serving as a means of exchange and payment in the non-productive cities of relatively small political entities. Neither was it a medium regulating demand (consumption) and supply (production), nor did it link local markets to larger exchange networks beyond. In *The Ancient Economy* he argued firstly that all monetary exchange was cash exchange and there were no such things as fiduciary money, that is, money not backed up by precious metal coinage or bullion. This made the volume of money very small, and in turn demonstrated its limited use. Secondly, credit did not increase the volume of money in circulation, but was used for instant needs when cash in hand was scarce. This frequently happened due to slow circulation and the fact that surplus cash was kept in hoards rather than being spent or invested. Thirdly, money did not convey market information and was not used as an accounting unit to make rational

21 Von Reden (1995): 105–26.
22 The debates are well summarized by Schaps (2004): 18–26; Cartledge (2002); and Davies (1998).
23 For the following Finley (1985): 115 f.; 132–5; 166–9; 141–3; and *passim*.

economic choice possible. The famous example of Columella, the owner of several large estates in Italy and author of an agricultural manual in the first century AD, suggested that even large players in the economy were not able to calculate the profitability of alternative investments. Therefore, cash-cropping and surplus-production for markets and export were never pursued systematically, so that trade and market exchange could not have significant effects on monetization. Fourthly, ancient governments had no monetary policies. Minting was guided by state expenditure rather than market considerations and concerns for a stable currency. Metals, weight systems and designs were adopted according to the immediate interests of civic communities, emperors or kings, with disastrous consequences for the monetary system. Moreover, since each local community took pride in its own coin designs and weight system, monetary transactions across political boundaries remained cumbersome and inefficient. Given the limitations of ancient coinage and money, the Mediterranean region remained economically fragmented, even at the height of the Roman empire. Local price formation was independent of inter-regional markets, which barely existed anyway, and the imperial monetary tax economy was a political economy superimposed upon otherwise local and particularized systems of production and consumption.

Most, if not all these positions have been contested in recent years, but also the issues have changed.[24] Finley wrote within an intellectual climate in which the liberal market economy and its theoretical basis in the form of classical and Neo-Classical Economic theory had to be protected against the challenges of communitarian economic models, especially the socialist system of the Soviet Union. Defenders of the market model, including ancient historians, aligned their perceptions of the past with their present ideas of progress and described the ancient economy as an earlier version of the Western system.[25] Critics of the system or those who, like Finley, did not believe quite so firmly in the market model as the only rational form of economic organization, drew out the possibilities of communitarian distribution systems, grounding their arguments, too, in pre-capitalist examples of the past. Ancient economies, with their ideological if not real focus on communitarian institutions such as households and small political communities, and economic cultures in which reciprocal social exchange or political redistribution, rather than markets, functioned as major distributive mechanisms, served both

[24] Von Reden (2002) for a summary of responses to Finley; Harris (2008), introduction, for a sketch of recent issues.
[25] Nafissi (2005): 17–54.