

MONEY—A BRIEF HISTORY

***“Money has evolved from shells to green paper
to the artful arrangement of binary digits.”***

Dee Hock

ORIGINS OF MONEY

Though its exact origins remain unknown, “money, like certain other elements in civilization, is a far more ancient institution than we were taught to believe (...).”¹ Dating far back into prehistory, its earlier forms were deeply related to the mysteries of the sacred.

The oldest coin-like currency known is a Sumerian bronze piece from about 3200 B.C.² The *shekel*, as it was called, was a sacred symbol embodying the mysteries of life’s fertility, with representations of a sheaf of wheat on one side, and the Sumerian Innana on the coin's other side (see insert).

The Shekel

The Sumerians called their first coin the Shekel, as She meant “wheat,” and Kel was a measurement unit similar to that of a bushel. Hence, this coin was a symbol of a value of approximately one bushel of wheat. (The word shekel

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The original purpose of the shekel was as payment for a sacred ceremony involving sexual intercourse at the Temple of Innana, with the priestesses of the Sumerian Goddess of life, death and fertility. This temple, a ritual center, was the storage place for the reserves of wheat that supported the priestesses, but also acted in support of the community as well during lean times. Farmers fulfilled their religious obligations to society, as well as to the Goddess, by bringing their contribution of wheat to the temple, receiving, in exchange, a shekel coin that entitled the farmers to a visit with the priestesses at festival time.

Two thousand years later, the Bible would describe these priestesses as “temple prostitutes.” However, the meaning and nature of these rituals must be understood within their own cultural context.

Fertility was truly a matter of life and death. If crops failed, there was no alternative—people went hungry until the following year, or starved. Innana’s priestesses were revered as representatives of the Goddess. Intercourse with them was as if with the Goddess of Fertility herself. Completing the magic ritual was believed to properly insure fertility in crops, animals, and children—the requisites for literal survival and future prosperity.

The shekel is by no means atypical. Societies have conferred mysterious sacred qualities upon currencies throughout history. For example, the first Greek coins (appearing more than two millennia later), were tokens proving that a citizen had paid his dues and could thus participate in the annual *hecatomb* (“sacred meal”) to be shared with the Deities. The word “money” itself derives from Juno Moneta, the Roman Goddess of pregnancy and fertility, whose temple basement housed the first Roman mint.

Even to this day, the relationship between money and sacred qualities persists. The U.S. Dollar bill, for example, issued by a country with a scrupulous separation of Church and State from its very inception, has as its motto “In God We Trust.” Illustrated on one side of that dollar bill is the Great Seal of the United States, particularly laden with esoteric symbols, as described by the noted scholar, Joseph Campbell (see insert).

The Esoteric One-Dollar Bill

(Synthesis from a conference by Joseph Campbell)

“You are hereby invited to really look at a sample of the familiar one-dollar bill. The most interesting side is not where George Washington is engraved, but the one where the Great Seal of the United States is represented.

*On the left, the obverse (normally hidden) side of the Great Seal provides an image of the Founding Father’s interpretation of the Source of Manifestation. It has the truncated pyramid crowned by the Delta of Light with the all-seeing eye of God. It represents spiritual power commanding the foundation of matter. The eye depicts the “opening of the eye” of Yahweh or of Brahma by which He created the physical world. This alludes to the eye that manifested the first world—we would call it the Big Bang in our contemporary scientific language. The Latin text *Annuit Coeptis* written above the “eye,” translates as “It supports our endeavors.” It is interesting that the Latin used here is gender-neutral, and therefore, does not necessarily imply a ‘masculine’ God. The other text, *Novus Ordo Seclorum*, below, translates as “The New Order of the Centuries.”*

The other side of the Seal (the officially visible one) represents the Source of Action, symbolized by the Eagle — symbol of Zeus, the only bird that could look into the sun. This eagle holds thirteen arrows (symbol of power), in its left claw, while its right claw holds an olive branch (symbol of peace).

*The number thirteen—the number of transformation—represents at the exoteric level the number of initial founding states. However, here it also has to be taken in its esoteric meaning, given the extraordinary lengths to which this number is repeated in the figure. The number 13 is referred to no less than seven times! These are: the number of rows of stones in the pyramid, the number of stars, the number of leaves on the olive branch, the number of arrows in the claw, the number of letters in *annuit coeptis* and the number of letters in the rest of the figure (including the Roman letters of the date) which amount to 26 (or 2 x 13). Achieving the right number of letters has required introducing an orthographic “mistake” in the Latin text (*seclorum* instead of the normal *seclorum*).*

The disposition of the thirteen stars above the eagle forms a “Seal of Solomon” (also called the “Star of David”) and is intended to give us some further clues. That six-pointed star is indeed one of the richest cabalistic and alchemical symbols. Do we need to go further to prove the point that—even in today’s totally secular world—the globally most circulated currency bill is instilled with substantial mysterious sacred qualities?”

Sacred qualities have been bestowed upon precious metals as well. For centuries, gold and silver remained symbolically associated with the sun and the moon, respectively; their prices stabilized mysteriously at a fixed ratio of 1/13.5, astrologically determined to reflect the heavenly cycles. These metals remained divinely ordained currencies long after clerical intervention on their behalf had ended and the astrological symbolism for them was forgotten.

ORIGINS—PAPER MONEY & MODERN BANKING

Modern style paper currency was issued as far back as the 800's A.D., in China, where it was first introduced as a substitute for the traditional bronze coins. By 900 A.D, its use there had become common. The West first heard about paper currency—with disbelief—through the reports of Marco Polo, whose adventurous travels in China date from 1275 to 1292.³

Paper currency first makes its appearance in Europe with modern banking during the late Middle Ages, during which time gold coins were the highest denominated currency, with goldsmiths considered to be those most qualified to check the purity of these coins.

More importantly, goldsmiths owned strongboxes where gold was kept safe from thieves. It therefore became prudent practice to store one's gold with the goldsmith, who, in return, would issue a receipt for the gold, charging a small fee for such a service. When needing to withdraw one's gold, for example, to make payments to others, the owner could cash in the receipt and the goldsmith would pay out the gold. Soon, it became more convenient and safer to make payments with the receipts themselves instead of the gold. If the goldsmith was known to be a trustworthy fellow, why take the risk of moving the physical gold? These goldsmith receipts soon became *tokens for a promise to pay*.

It is important to note here that whenever someone accepted the token as payment, they were implicitly entering into a loan agreement with the goldsmith. Thus, we gradually shifted from money based on commodities to money based on credit, or a bank loan. This same agreement is in use today.

Enterprising goldsmiths soon took notice that the bulk of the gold coins remained in their strongboxes most of the time. This allowed them to issue receipts in excess of the deposits they stocked, on the logic that depositors would never retrieve all of their coins at the very same time. The goldsmiths could thereby increase their incomes without having to increase their gold reserves.

So it was that European paper currency and “modern” banking were born simultaneously on the goldsmith benches of 13th century Italy, as noted by another of the many etymological clues associated with money—the word “bank” derives from *banco*, the Italian bench where those early transactions took place. All the key ingredients of banking were already there: paper money as a counterparty's liability, the importance of a good reputation for that counterparty and the “fractional reserve system”—the process by which the banking system was able to create more money than the deposits it held (a process that has become the foundation of the modern banking system).

Origins of Banking and Writing

Banking and financial transactions can be traced far back to early civilizations. “Writing was invented in Mesopotamia as a method of book-keeping.”⁴ The earliest samples of writing date from 3,100 B.C. in the Sumerian city of Uruk, and describe deposit banking, “foreign exchange” transactions, secured and unsecured lending, both locally and with neighboring city-states.

The first official banking laws were part of the Code of Hammurabi back in ancient Babylonia (750 B.C.). These Babylonian banks, “by the detailed organization, by the number of branches and employees, by the daily records and accounts kept of the capital invested in them, may well be compared with the greatest banks of the nineteenth and twentieth centuries A.D.”⁵

THE INDUSTRIAL AGE & MONEY

While some basic elements of the Western monetary system were introduced in Europe during the late Middle Ages, it was in pre-Victorian England, an island nation poised to carve out its empire in the world at the beginning of the Industrial Revolution, that the main characteristics of today's monetary and banking systems were fashioned.

From the 1700's onwards, the western world experienced an accelerated change from a mostly rural and agricultural society to an increasingly urban and industrial society.⁶ Manpower gave way to machine power, the domestic workplace was replaced with factories; trade and commerce, domestic and international, became an ever more vital component of society. The

Industrial Age, with its new factories, international commerce and the need for new markets and raw materials, spawned the development of bigger and faster forms of transport, new and improved roads, better communication, nationalized armies, navies and colonization, all requiring a monetary system which could support such revolutionary changes and innovations. Until this period, there were not as yet any national currencies; there were only private currencies in existence, issued by respective rulers. The nation-state was itself a new concept.⁷

How were these new centralized, national governments to function and support themselves? How was money to be created and what was the money to be based upon? What would be the nature of the relationship between government and the private sector? How could a monetary system support both a nation-state and private industrialization?

The money system that evolved, whether by conscious or by unconscious design, was remarkably successful in reinforcing both the burgeoning nation-states, while at the same time concentrating resources to enable systematic and competitive heavy industrial development. Today, every country in the world, independent of its degree of development or political orientation, has bought into this pre-Victorian construct. Even Communist countries have each reproduced its key features.

Legal Tender & Fractional Reserves

An arrangement was struck between the emerging national governments and the commercial banking system. The privately-held banking system obtained the right to create money as “legal tender,”⁸ through the process of “fractional reserves ” (described in more detail below) in exchange for a commitment to provide whatever funds the national government needed.

In effect, commercial banks were given the power to create new money through a process that was based upon issuing loans to their customers. The amount of money that the banking system could loan out, together with the amount of new money that would be created by the banking system, would be determined by the bank’s stores of deposit.

Based on the agreement struck with government, if a specific bank had say, a total of \$100 million placed on deposit (in “reserve”) within its vaults, it was now permitted to loan out 90 percent (“fraction”) of the total reserve, or, in this example, \$90 million. Only \$10 million of the original \$100 million would be required to remain within the banks possession (as “sterile reserves”).

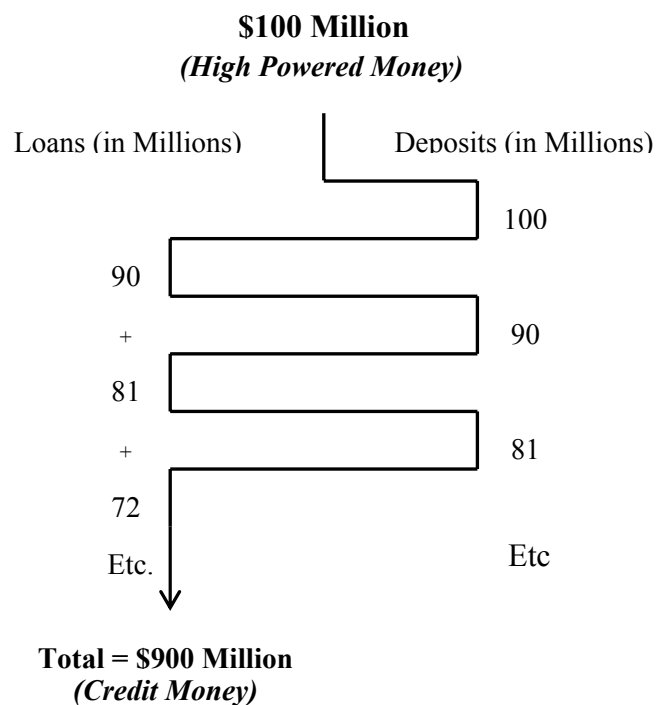
This \$90 million loan, now somewhere in circulation as “new” money, will sooner or later enter once again as a deposit or series of deposits into one or more banks; perhaps even the same original bank. Once this money is re-deposited, the bank(s) can now make another loan equal to 90 percent of these total deposits, or \$81 million, once again creating a new batch of money.

This cascade continues over and over again from deposit to loan down through the commercial banking system, such that the original \$100 million **on** deposit will ultimately create a grand total of nearly \$900 million of “new” money, entirely in the form of loans.⁹

Money Alchemy

Modern money alchemy (officially called “fractional reserve multiplier”) starts with the injection of say \$100 million into the banking system, by having the Federal Reserve Bank (the U.S. Central Bank) pay government bills for that amount. This \$100 million ends up being deposited somewhere in the commercial banking system by the recipients, enabling the banks receiving these deposits to then provide a total loan for \$90 million to someone else (with the remaining \$10 million acting as “sterile reserves”). The \$90 million loan will in turn lead to a deposit for that new amount, enabling these banks to now provide another new loan for \$81 million, etc.

Thus, the original deposit of, say, \$100 million (referred to as *high-powered money*), creates a grand total of \$900 million in new *credit money* # as it trickles down through the commercial banking system.



But from where exactly did the \$100 million that was first stored in the bank vault originate?

Central Banks & High Powered Money

To ensure that a government’s monetary needs were met, a national Central Bank was created and functioned as the intermediary between the government and the commercial banking system of that nation. The original high powered money deposit of \$100 million originated as a loan, issued by the Central Bank of that nation to the federal government, **as an example**, to pay government employees. The “**high power**” refers to the capacity of this original \$100 million to generate another \$900 million through the banking system in private credit money.

The longest surviving agreement of this kind can be traced back to 1668 in Sweden when funds were urgently needed to fight a war against Denmark. The crown gave a license of “emission” to the “Bank of the Estates of the Realm,” to print and loan paper money to the Swedish Central Bank.¹⁰ This model was copied in Britain a generation later on the occasion of a war against France

when a charter was assigned by King William of Orange to the Bank of England in 1694 giving it a *monopoly to print, emit and create paper money* It is from Great Britain's central bank that the model spread around the world. The “Old Lady” of Threadneedle Street, as the central bank is referred to in the City of London, “is in all respects to money as St. Peter’s is to the Faith. And the reputation is deserved, for most of the art, as well as much of the mystery associated with the management of money, originated there.”¹¹

The fractional reserve system is the convoluted mechanism by which the deal struck between governments and the banking system is implemented, how money is created, and why money and debt are literally two sides of the same coin. Our monetary system, by its very design, requires that we cannot create money without simultaneously, and automatically, creating debt.

The same deal was struck in the U.S, allowing a Central Bank to create a “national” money with a guarantee that the government would receive money when it was needed. This was part of the U.S. Federal Reserve Act of 1913. That is why the U.S. Federal Reserve Bank, America's Central Bank, accepts any government bond that the public does not buy, against which it issues a check for the corresponding amount. This check pays for the government’s expenses, and, in turn, the recipients deposit it in their own bank accounts. This “high powered money” then starts its multiplying effects down through the banking system.

MONETARY FIREMEN & THE BRETTON WOODS AGREEMENT

The post-WWII era bore witness to the formation of monetary “firemen” and the development of a global economy, with the predominance of the U.S. dollar.

Intervention Organizations

Fires are rare, but when they occur, they can be devastating. Entire cities have burned down because one single person has been careless; hence, the invention of fire brigades and fire inspections. So it is too with money and the banking system. Banks have proven historically to be very fragile institutions (see insert).

Why Are Banks Fragile?

Banks are, and have always been, accident-prone. Just looking at more recent decades, there is the Savings and Loans debacle in the US and the rescue of Scandinavian banks in the 1990's, the thrice-threatened Japanese banks, with: the Less Developed Countries crisis (1980's), a real-estate crunch (1990's) and the South-East Asian meltdown (1997); the Latin American troubles in the 1980's and again this last year, most notably in Argentina. The trickiest situations involve globally active banks, such as the BCCI and its debacle of 1991, still being cleaned up in courts worldwide to this day.

Why banks remain so fragile is a dilemma that has never been fully resolved, for the following reason.

The nature of banking is to take low-risk assets (deposits) and invest them in higher-risk assets. When these risks pay off, the bank owners reap the rewards. When the risk does not pay off, and a bank fails, the losses are spread between the bank owners and the depositors (or the governmental insurance safety net that now protects the depositors). Thus, a built-in temptation exists for banks to take high-risk/high return gambles. This is called “moral hazard” in bank jargon.

The dilemma is this: if banks are not allowed to take any risks, there is no banking; but if a major bank takes excessive risks, should it be allowed to fail? Big bank failures can destabilize the entire financial system. Worse still, when loans to thousands of businesses are withdrawn, the rot can spread quickly to all kinds of economic activities; suddenly millions of jobs and livelihoods are at stake.

Banking is different from other businesses for an important reason: bank problems tend to become everybody's problems!

Because of the fragility of banks, specialized emergency “firemen,” or organizations were created: the Central Banks of each nation and on an international level, the International Monetary Fund (IMF) and the Bank of International Settlements (BIS). Each has their roles to play in trying to manage the growing instability of the global money system.

Central Banks: In the 19th century, the name “Central Bank” referred to a bank, (headquartered in a nation’s capital), that once functioned primarily and enjoyed the monopoly of issuing paper notes in national currency.

They now play much more complex roles. They serve as “emergency firemen” whenever a bank or the whole system within a nation gets into trouble. In the world of banking, this is called, “lender of last resort” and “systemic risk management.” Central Banks also carry the ultimate responsibility for controlling inflation in a nation through various mechanisms that influence the quantity of money that the banking system creates.

Central Banks are also banks, though their clientele are not everyday depositors, but rather their nations' banks, for whom they settle payments. By the 1950’s there were 56 nations with Central Banks. Today, that number has grown to 170 nations.

The Bank of International Settlements (BIS): Created in 1930 to deal with German war reparations, the BIS today addresses important issues best handled with efficient discretion – or in other words, matters it would rather not have the public know about. Its functions include monitoring the global money system and providing wholesale market transactions for its member Central Banks. The BIS is a private club, owned and operated by the key “10+1” Central Banks (the 10 founding Central Banks, plus Switzerland as host-country). Neither politicians nor ministers of finance are welcomed to participate.

The BIS is also a bank, though its only customers are Central Banks, for which BIS has been nicknamed the “Central Bank of Central Banks.” The BIS has also engaged discretely in international fire extinguishing operations.

The International Monetary Fund (IMF): The IMF is the auditor of the world's Central Banks, the official political arm of the global money system, and “lender of last resort” internationally, from whom member nations can obtain emergency loans (from a pool of several hundred billion dollars, obtained as “quotas” from its nearly 200 member countries). Typically, such loans are conditional upon draconian economic austerity measures; hence, the IMF’s reputation as a global economic “policeman.”

The U.S. has a dominant influence at the IMF, given its location in Washington D.C., and even more the U.S. veto power on all decisions. The IMF was created to enforce the rules of the 1944 Bretton Woods Agreement.

The Bretton Woods Agreement

In July of 1944, 45 countries signed the first global monetary constitution in Bretton Woods, New Hampshire. All countries agreed to fix their currencies to the dollar. In return, the U.S. committed to keep the dollar convertible into gold upon request from any Central Bank, at the rate of \$35 per ounce, placing the U.S. currency in de facto position in the commanding role of the global system. The International Monetary Fund (IMF) was created to police the system, and whose approval would be required for any change in the value of a national currency.

ENDNOTES

1. Keynes, J. M. *A Treatise on Money* (London, 1930) chap. 1, p. 13.
2. Kurtzman, J. *The Death of Money: How the Electronic Economy has destabilized the World's Markets and created Financial Chaos* (New York: Simon and Schuster, 1993).
3. Dent, J.M. *The Travels of Marco Polo* (London, 1908) chapter XVIII of original text, pp. 202-205, in translation.
4. Oates, J. *Babylon* (London, 1979) p. 25.
5. Heichelheim, F.M. *An Ancient Economic History* (Leiden, 1958) Vol. III, p. 122.
6. As is discussed in Chapter 10, *A Central Middle Age*, parts of Europe began to industrialize many centuries earlier, long before the official Industrial Age began.
7. The German philosopher Georg Wilhelm Frederick Hegel (1770-1831) was the first to develop the theoretical concept of a nation-state owned by the people who inhabit it, as opposed to private or oligarchical fiefdoms, which were the historical norm for kingdoms or empires.
8. "This note is legal tender for all debts public and private" is written on every US \$ bill. In practice, this signifies that if you owe money and your offer to pay with US \$ dollar bills is refused, you can walk away and simply declare the debt void. If needed, the courts will back you in such a declaration.
9. The exact percentages vary from country to country, and they also vary with the kind of deposit made; the longer the term of a deposit, the lower the percent of "reserves" that are required. The 90% rule of this example, enabling a "multiplier" of 9 to 1, is an illustrative average.
10. In 1867, the "Bank of the Estates of the Realm," was renamed Riksbank, the name of the Swedish Central Bank to this day.
11. Galbraith, J. K. *Money: Whence it Came, Where it Went* (London: André Deutsch, 1975).