

CHAPTER 1

MONEY

“Mrs. Bold has twelve hundred a year of her own, and I suppose Mr. Harding means to live with her.”

“Twelve hundred a year of her own!” said Slope;— and very shortly afterwards took his leave ... Twelve hundred a year, said he to himself, as he rode slowly home. If it were the fact that Mrs. Bold had twelve hundred a year of her own, what a fool would he be to oppose her father’s return to his old place. The train of Mr. Slope’s ideas will probably be plain to all my readers ... twelve hundred a year ...

—ANTHONY TROLLOPE, *BARCHESTER TOWERS*

Not very long ago one of the investigations into the typically intricate affairs of the 37th President of the United States turned up a more than normally interesting transaction. Mr. Charles G. Rebozo, Mr. Nixon’s good and reticent friend, had received for the then President’s benefit, political or personal, \$100,000 from the even more reticent entrepreneur, Mr. Howard Hughes. This considerable sum, it was claimed, had thereafter been kept in cash in a safe-deposit box for rather more than three years before being returned to Mr. Hughes. The curiosity concerning this transaction was not over why anyone should return money to Mr. Hughes, which is something like returning salt tears to the ocean. Rather it was why anyone should leave so much money in storage. So left, as everyone knew, it lost radically in value—a dollar of 1967 had

the purchasing power of only 91 cents in 1969, the year Mr. Rebozo resorted to storage, and of less than 80 cents when he retrieved and returned the money. (In early 1975, it was down to 64 cents.) The impact of this trend could not have been lost on the two gentlemen. The partial compensation for this loss in the form of interest, dividends or, one might even hope, capital gains, which a minimally prudent man would have been expected to collect, was forgone. The most retarded of the borrowers in the Parable of the Talents had incurred rebuke for coming back with only the original advance. Neither Mr. Nixon nor Mr. Rebozo was thought indifferent to pecuniary concern; both had fallen well below the Biblical minimum for financial performance. There was general disbelief and shaking of heads that they should have been so bad.

There was in this episode a quite remarkable demonstration of what has happened to attitudes toward money. Everyone expects it to depreciate in value. No one suggested that the President, who was ultimately responsible for maintaining the value of the currency, had been so rash as to bet personally on his ability to do so. Like everyone else he was thought to need a strategy for offsetting its deterioration, although with no expectation that it would be successful. Nor was there any country in the nonsocialist world whose leader would have reposed more confidence in his ability to maintain the value of the currency than the President of the United States. Everywhere the tendency in these years was the same—for prices to rise, the purchasing power of money to decline and at an uncertain, erratic rate. Nothing is forever, not excepting inflation. But to many it must have seemed that this tendency was distressingly persistent.

Nor were those who carelessly stored \$100,000 in bills the major victims. Far more disenchanting was the position of those whose small wealth and income were fixed in dollars, pounds, marks, francs or other coin and who could not tell what these

would buy in the future, only that it would be less. In the last century in the industrial countries there was much uncertainty as to whether a man could get money but very little as to what it would do for him once he had it. In this century the problem of getting money, though it remains considerable, has diminished. In its place has come a new uncertainty as to what money, however acquired and accumulated, will be worth. Once, to have an income reliably denominated in money was thought, as by Mr. Slope, to be very comfortable. Of late, to have a fixed income is to be thought liable to impoverishment that may not be slow. What has happened to money?

It has long been fashionable for historians, except in the secret recesses of their belief, to be modest about the lessons of history. Perhaps it teaches only that it teaches little. Where money is concerned, this restraint is unwarranted. The history of money teaches much or it can be made to teach much. It is, indeed, exceedingly doubtful if much that is durable can be learned about money in any other way. Attitudes toward money proceed in long cyclical swings. When money is bad, people want it to be better. When it is good, they think of other things. Only as matters are examined over time can we see how people who are experiencing inflation yearn for stable money and how those who are accepting the discipline and the costs of stability come to accept the risks of inflation. It is this cycle that teaches us that nothing, not even inflation, is permanent. We learn also that the fear of inflation which inflation leaves in its wake can be as damaging as the inflation itself. From the history we can also see, more vividly than in any other way, how money and the techniques for its management and mismanagement were evolved and how they now serve or fail to serve. It is from the past that we see how new institutions—corporations, trade unions, the welfare state—have altered the problem of maintaining price stability in the present and how

changing circumstances—movement to a class structure in which fewer and fewer people are successfully taught to take less, the changing political interest of the affluent—have greatly complicated the task.

It is with the lessons of history, rather than the history itself, that this book is concerned. Its purpose is didactic and expository, less in relation to the past than to the present. But its purpose is also less than completely solemn. There is much in the history of money that is fascinating. There is more that richly illuminates human behavior and human folly. That the love of money is the root of all evil can, conceivably, be disputed. Adam Smith, for many a prophet of only slightly less than scriptural authority, thought in 1776 that of all the occupations on which man had to that time engaged—war, politics, religion, violent recreation, unrequited sadism—the making of money was socially the least damaging. What is not in doubt is that the pursuit of money, or any enduring association with it, is capable of inducing not alone bizarre but ripely perverse behavior.

There are good reasons. Men possessed of money, like men earlier favored by noble birth and great title, have infallibly imagined that the awe and admiration that money inspires were really owing to their own wisdom or personality. The contrast between their view of themselves, as so enhanced, and the frequently ridiculous or depraved reality has ever been a source of wonder and rich amusement. Similarly there has always been pleasure of a low sort in the speed with which the awe and admiration evaporate when something happens to the individual's money.

Money bemuses in another way. Recurrently over the centuries men have supposed that they have mastered the secret of its infinite amplification. And as reliably as they have persuaded themselves of this, they have also persuaded others. Invariably it involves the rediscovery, perhaps in slightly novel

form, of some infinitely ancient fraud. The span of time between the transcendental heights of the financial genius and the nadir of the ensuing collapse—from being John Law the savior of the French Regency to being John Law the penitent in Venice, from being Nicholas Biddle the first master of American finance and a fearsome figure to Presidents to being Nicholas Biddle the most distinguished of Philadelphia bankrupts, from being Bernard Cornfeld of the jet planes and sad-eyed concubines to being Bernard Cornfeld of the prison of St. Antoine—is often only a few months, at most only a few years. There is wonder and a certain wicked pleasure in these giddy ascents and terrible falls, especially as they happen to other people. Here, no doubt, it is the story and not the meaning that is important.

A word must be said about the frame of mind in which one wishes the reader to approach a book such as this. Much discussion of money involves a heavy overlay of priestly incantation. Some of this is deliberate. Those who talk of money and teach about it and make their living by it gain prestige, esteem and pecuniary return, as does a doctor or a witch doctor, from cultivating the belief that they are in privileged association with the occult—that they have insights that are nowise available to the ordinary person. Though professionally rewarding and personally profitable, this too is a well-established form of fraud. There is nothing about money that cannot be understood by the person of reasonable curiosity, diligence and intelligence. There is nothing on the following pages that cannot be so understood. And whatever errors of interpretation or of fact this history may contain, there are, the reader may be confident, none that proceed from simplification. The study of money, above all other fields in economics, is the one in which complexity is used to disguise truth or to evade truth, not to reveal it. Most things in life—automobiles, mistresses, cancer—are

important only to those who have them. Money, in contrast, is equally important to those who have it and those who don't. Both, accordingly, have a concern for understanding it. Both should proceed in the full confidence that they can.

It will be asked in this connection if a book on the history of money should not begin with some definition of what, money really is. What makes this strip of intrinsically worthless paper useful in exchange, leaves another piece of similar size without any such worth? The precedents for such effort are not encouraging. Television interviewers with a reputation for penetrating thought regularly begin interviews with economists with the question: "Now tell me, just what is money anyway?" The answers are invariably incoherent. Teachers of elementary economics or money and banking begin with definitions of genuine subtlety. These are then carefully transcribed, painfully memorized and mercifully forgotten. The reader should proceed in these pages in the knowledge that money is nothing more or less than what he or she always thought it was—what is commonly offered or received for the purchase or sale of goods, services or other things. The several forms of money and what determines what they will buy are something else again. But that is the purpose of the pages following to reveal.

A final word. This is a history of money; it is considerably less than a history of all money during all time—something with which no historian is likely soon to offend. So at all periods there had to be selection. The selection was based on what (as in the case of the Bank of England) most shaped the development of money; or (as in the case of the struggle between Jackson and Biddle) best illuminated the forces contending for its control; or (as in the work of Keynes and the recent history) contributed most to our present understanding. More prejudicially, some of the selection, no doubt, also resulted from what most interested the author.

In the later chapters, as will be evident, the selection converges strongly on the dollar. Here art, real or alleged, merely imitates life. It is to the dollar that the history of money comes. It is with the dollar that, for the moment, the history of money ends.