

The history of money - a guest post

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I began posting a [series of comments from Helen Schofield](#) on the history of money yesterday. Today I add her third and fourth instalments. The series will continue over the weekend.

Instalment Three

This lack of government control over demand in the domestic English economy is something Desan points out strongly. She uses it to help explain the big evolutionary change in the design of money in England towards the end of the 17th century. There was, however, in my opinion another driver of this design change and although Desan alludes to it the explanation is best found in the book by Moshe Arye Milevsky (a Professor of Finance at York University in Canada) entitled "The Day The King Defaulted: Financial Lessons From The Stop of The Exchequer In 1672."

To best understand this book a little more explanation is needed. Whilst English governments could create coinage using Royal Mints starting in Anglo-Saxon times in 886 AD in the Tower of London monarchs used other means of raising money such as the issue of assigned and unassigned tallies. They also borrowed money usually from rich individuals and from foreign banks. Banks only really got going in England with gold-smith banks in the earlier part of the 17th century (although trade between countries had created quasi-banks to allow Bills of Exchange to operate. These were vellum/parchment financial instruments first invented by the Arabs around the 8th century AD and became extensively used in the Lombard area of Italy in the 13th century for foreign trade purposes).

<https://www.britannica.com/topic/bill-of-exchange>

Monarchs were borrowing money for two main reasons firstly, to support their life-style which they believed should be luxurious and prestigious to win public respect which also included representing the well-being of the nation against that of others (useful to deter attack). Secondly, they needed to either pursue wars (with securing access to silver and gold a prime objective,

think exploration of the New World) or defend the country when attack actually threatened.

Instalment Four

I think by now your head will be spinning with the information I've provided so far, even worse Desan and Milevsky are telling us 17th century England was a key area of the world for the evolutionary design of money because a lot happened in this century. After some pondering I've decided the best way to facilitate getting a handle on this complexity is by writing about them under the following headings; Technology, Trust, Institutions/Agencies, Financial Instruments, The 1672 Exchequer Stop, The Bank of England 1694, and Lessons To Be Learnt.

Technology

We don't tend to think much today about the role played by technology in money creation way back in the 17th century. In the early part of the 17th century the main technology deployed in England was coinage, using vellum/parchment for a Bill of Exchange financial instrument and keeping account records of extended credit/loans and of course wooden tally sticks. However, at the end of the 16th century mass paper production began in England and together with the 15th century development of the printing press in Europe which spread to England this opened up a massive opportunity for cheaper production of printed material leading to largish scale production of bank notes beginning at the end of the 17th century.

Trust

The 17th century in England saw the inevitable breakdown of trust in England between two ruling bodies the monarchy and Parliament this was largely over three issues the Divine Right to Rule and Parliamentary Sovereignty, Religion, and Spending by the monarchy. The issue of who should have the final say in matters affecting the English nation is somewhat akin to what's been happening in the United States over the last few years with Donald Trump playing the role of petulant king wanting everything entirely his way aided and abetted by a Republican Party "aristocracy" in the Senate. This was finally resolved by the Glorious Revolution in 1688 when Parliament circumscribed the monarch's powers especially levying taxes and blocked the chances of an absolute monarchy being imposed again.

In the case of religion it's probably not remembered that the opposition to usury was still strong in the Catholic faith in the 17th century in England. Indeed Thomas Clifford who is believed to have been the adviser to Charles II that resulted in The Stop of The Exchequer in 1672 was somewhat of a fanatical Catholic opposed to usury. In the background was a predominantly protestant English nation that was not only suspicious that both Charles I and II were dominated by Catholic advisers but both had married Catholic wives.

There were two specific incidents if not three that created strong distrust amongst the wealthier members of English society. Merchants and gold-smiths were used to using the vault at the Royal Mint in the Tower of London to store valuables such as coinage and bullion. At the start of the Civil War Charles I temporarily impounded this wealth. There is a view that Charles II did the same when he was attempting to get gold-smith bankers and wealthy merchants to lend him more money. There are conflicting views whether this actually happened. Then there is the Stop of The Exchequer. More about this later.

We also shouldn't forget the Civil War itself which split the nation.

Finally, there was the management of the specie based coinage which was never for most of the 17th century adequate to meet demand for reasons I've already outlined.