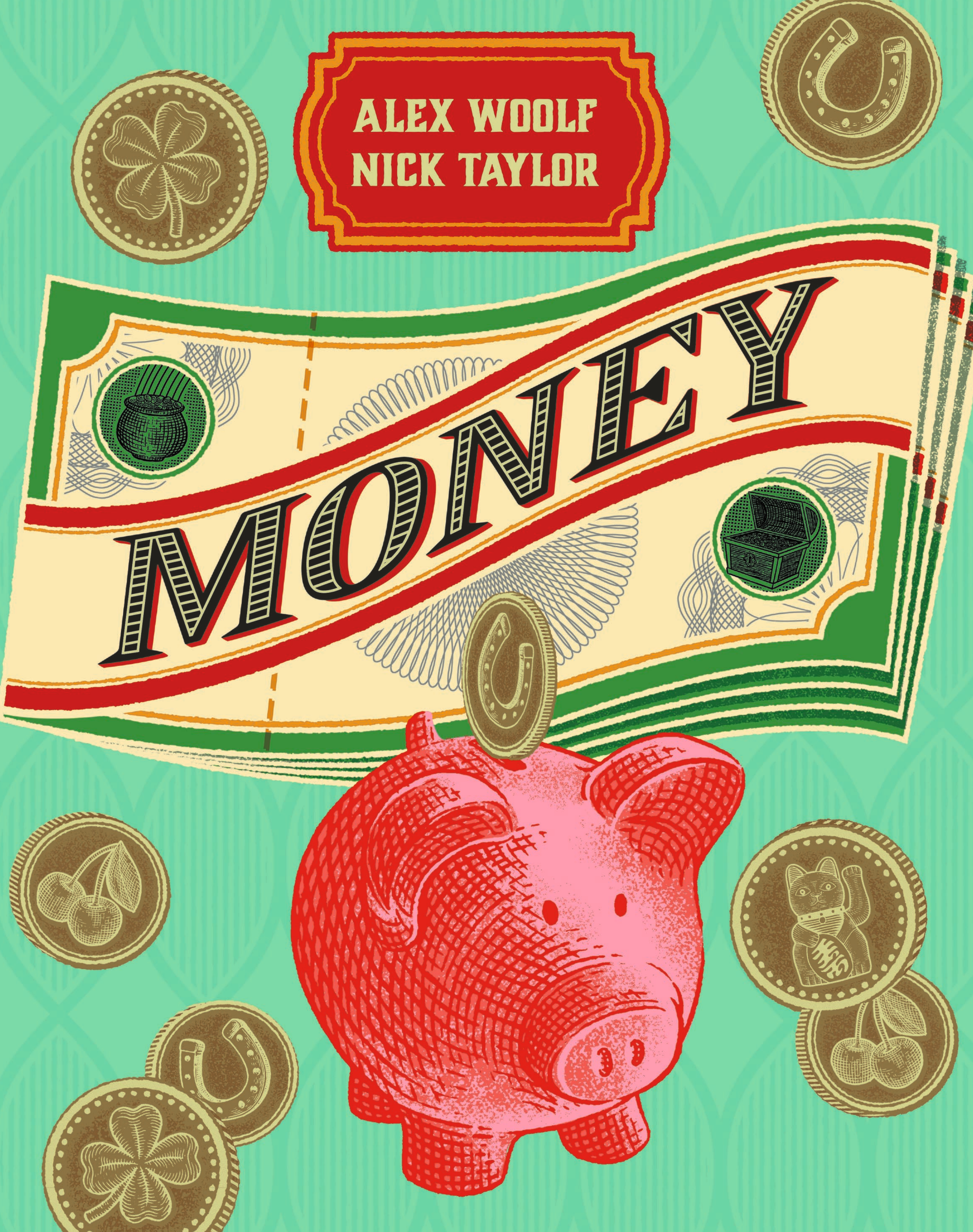
ALEX WOOLF
NICK TAYLOR

MONEY



A RICHLY ILLUSTRATED HISTORY

BIG PICTURE PRESS

FINANCIAL MARKETS

At regular markets people buy and sell things like food and clothing. At financial markets, people trade money-related assets. These include stocks and bonds. Stocks are shares in a company that the company sells to raise capital. Shareholders are paid dividends (regular sums paid out of the company's profits). Bonds are certificates issued by a government or corporation, promising to repay borrowed money at a fixed rate of interest. Financial markets can be physical places, like the New York Stock Exchange, or they can take place online.

Fred buys shares in a company.

The company uses the money raised from selling shares to invest and grow, causing profits to rise. Fred's shares go up in value.

Fred holds on to his shares and receives a dividend.

Fred sells his shares to Jill for a profit.

THE FIRST BONDS

In the twelfth century, the government of Venice came up with a new way of raising money to fight a war. It offered its citizens certificates, known as prestiti, in exchange for a loan, promising to pay them back by a certain time, plus 5 per cent interest. These were the first government bonds. Before long they became a popular investment, and a market developed for the buying and selling of prestiti.

THE FIRST STOCKS

Founded in 1602, the Dutch East India Company was the first company to sell shares in its business to the public. The money it raised from this funded its voyages to the East Indies, and it paid its shareholders out of the profits from its trade in enslaved people and spices. The shares were traded in the Amsterdam Stock Exchange, also established that year.

THE DAILY NEWS

OCTOBER 1929 — NEW YORK CITY

THE WALL STREET CRASH

FINANCIAL MARKETS CAN BE VOLATILE. A RUMOUR OR A MINOR PIECE OF ECONOMIC NEWS CAN CAUSE BIG SWINGS IN PRICES. THE DESIRE TO MAKE MONEY OR AVOID LOSING IT IS A POWERFUL ONE, AND A HERD INSTINCT CAN SOMETIMES TAKE OVER WITH PEOPLE STAMPEDING TO BUY OR SELL. THE MOST SPECTACULAR EXAMPLE OF THIS WAS THE WALL STREET CRASH OF 1929.

THE ROARING TWENTIES

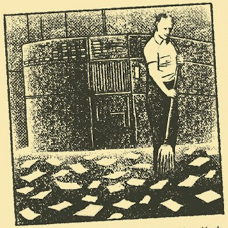
The 1920s was boom time in the United States. There was a spirit of optimism in the country and it became fashionable to play the stock market. Share prices soon rocketed to a point where they represented a value far greater than the total worth of their companies' assets. This was now a 'mania' – a period when everyone, from wealthy financiers to common investors, lost touch with reality and seemed to believe that prices could keep rising forever.

DISASTER

The crash occurred at the end of October 1929, during three calamitous days of trading at the New York Stock Exchange on Wall Street, when huge numbers of people decided collectively it was time to sell. With so many sellers, there were few buyers, and share prices plummeted. In those three days, billions of dollars were wiped off the value of American companies. And over the following years the market kept on falling. By 1932, stocks had lost nearly 90 per cent of their pre-crash value.

AFTER EFFECTS

As a result of the crash, businesses were bankrupted, banks closed, millions lost their jobs and the world plunged into a deep and lasting economic depression. This had a big political impact. In Europe, extreme right-wing parties exploited the misery of mass unemployment, blaming 'foreigners' such as Jews. Germany's Nazi Party rose to power in 1933. The consequences for the world would be devastating.



A cleaner sweeps the floor of the New York Stock Exchange following the Wall Street Crash of 1929

RICH AND POOR

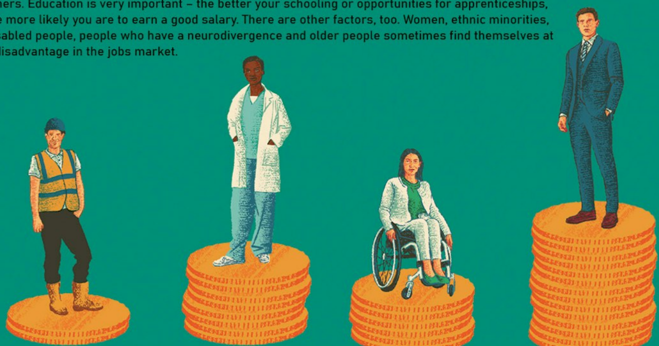
We all need money, but some of us have more of it than others. This has always been the case. The most equal societies in history were and are hunter-gatherer communities, who obtain their food through foraging rather than farming. They tend to share what they have. Once humans began farming around 10,000 years ago, they were able to amass wealth and property and pass it on to their offspring. This was the beginning of inequality.

THE HISTORY OF INEQUALITY

Inequality – the difference in wealth between the richest and poorest in society – has varied throughout history. It reached a peak during the Middle Ages, with a handful of families owning up to a quarter of the land in England. Inequality declined steeply after the Black Death pandemic in 1347–1351. So many died, there was a labour shortage, so landowners had to pay workers more. Inequality reached another peak in Britain in 1900–1910, when 94 per cent of the country's wealth was in the hands of the richest 10 per cent. That declined steeply during the twentieth century, and by 1990 the richest 10 per cent held 48 per cent of the wealth. Since then inequality has begun slowly rising again.

CAUSES OF INEQUALITY

There are many reasons for wealth inequality. Some people have innate abilities that help them to acquire wealth. Some types of jobs will pay less than others, even when they are equally important or skilled positions. Geography can be a factor – some places have fewer work opportunities than others. Education is very important – the better your schooling or opportunities for apprenticeships, the more likely you are to earn a good salary. There are other factors, too. Women, ethnic minorities, disabled people, people who have a neurodivergence and older people sometimes find themselves at a disadvantage in the jobs market.



WEALTH CONCENTRATION

One of the biggest reasons for inequality is the way that wealth tends to get concentrated in the hands of the already wealthy. If you have lots of money, you can invest it in new sources of wealth creation. You could buy a property and rent it out, or decide to train for a new qualification. Economically disadvantaged people have none of these opportunities. The rich can pass on their possessions to their children and give them the benefit of a good education, so wealth concentration tends to continue down the generations.

WHAT'S WRONG WITH WEALTH INEQUALITY?

So long as the poorest in society have a reasonable quality of life, does it matter that there is a big difference in their wealth compared to the richest? Some argue that the richer people get, the more they will buy and the more businesses they will start, creating jobs and wealth for everyone. This theory is known as 'trickle-down economics'. Others point out that the wealthy do not always spend their money in the country where it is earned, but put it in tax havens. They also argue that wealth inequality reduces community spirit and increases social unrest, weakening society.

GOLDEN YEARS

When a country adopted the gold standard, its currency became convertible to gold and its banknotes could be exchanged for unit weights of gold at a fixed rate. For example, in the UK, one troy ounce of gold (31.1035 grams) was worth £4.25. The amount of money in circulation now had to be matched by the amount of gold in its central bank's reserves. This limited a government's ability to print money.

ADVANTAGES

The gold standard has some important advantages. By limiting the ability of governments to print more money, it keeps prices stable and prevents hyperinflation (see pages 62–65). Prices in the UK were much the same in 1914 as they were in 1880. The gold standard can also create certainty in international trade by providing a fixed pattern of exchange rates. Governments are unable to deliberately devalue their currencies to make their exports more competitive.

DISADVANTAGES

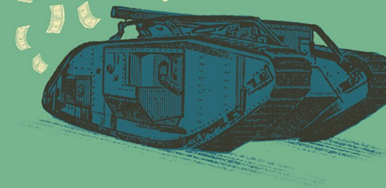
The gold standard gives an unfair economic advantage to nations that produce gold. New gold discoveries or sudden rises in gold production can lead to a growth in the money supply, and ultimately price inflation. The gold standard may act as a brake on economic growth because it limits the amount of money in circulation. Changes in the world's money supply are linked to the amount of gold that has been mined, rather than to the world's economic needs. It prevents governments from temporarily increasing the money supply to stimulate the economy or to offer humanitarian aid during national emergencies.

AN INTERNATIONAL SYSTEM

In the 1870s, the gold standard was formally adopted by the United States, France and Germany. Many other countries quickly followed suit. Under this new international system, almost all the world's major countries pegged their currency to the value of gold. Because each currency was linked to gold, they were also linked to each other, creating a seemingly stable system.

THE COST OF WAR

Gold's reign lasted barely 40 years. It ended with the outbreak of World War I in 1914. Suddenly, governments needed to print money to finance their huge military spending. The amount of gold in their reserves could not keep pace with the increase in money, so they had to drop out of the gold standard. After the war, efforts were made to curb the inflation caused by all the money printing (see page 22) and restore the pre-war international system. By 1927, many countries had returned to the gold standard, though not for long. They had to abandon it again when the Great Depression struck in the 1930s (see page 39).



BRETTON WOODS

After World War II, the victorious nations met at Bretton Woods in New Hampshire, United States, and agreed to adopt a new kind of gold standard. This time, the US dollar would be fixed to gold at the price of $35 an ounce, and all other currencies would be fixed to the dollar, maintaining their value to within plus or minus 1 per cent. The system worked reasonably well until the 1960s when the French government began exchanging its dollar reserves for gold, depleting US gold reserves. At the same time, the United States was suffering severe financial strain from waging the Vietnam War.

THE NIXON SHOCK

On 15 August 1971, US President Richard Nixon ended the international convertibility of the US dollar to gold. This was meant to be a temporary measure until the dollar's exchange rate with gold could be revalued, but gold convertibility was never reestablished. The United States and the world abandoned the gold standard. Currencies became free-floating, with their values determined by the market and backed only by the authority of their governments. The era of fiat money (see page 8) had begun.

FROM COUNTERFEIT COINS TO FALSE NOTES

For as long as money has existed, people have tried to forge it for profit. Producing counterfeit (fake copies of) notes or coins is, of course, illegal, and it can cause all sorts of problems, not only for the person receiving it. If there is enough counterfeit money in circulation, it can reduce the value of real money, causing inflation (see pages 22-23). When people can no longer be sure if the cash in their pockets is genuine, it can cause them to lose trust in a currency.

FIRST FORGERS

Early forgers would steal precious metal from coins and mix it with base metal to make new coins. Many of these counterfeit coins, known as fourrées, would have a base metal core and a thin surface of precious metal to fool the recipient. The precious metal might be obtained by clipping or sweating real coins (see page 21).

Today, counterfeiters focus on forging banknotes. They will scan a genuine note at a very high resolution, then print it on a good quality printer. It will lack the security features of modern notes (see pages 68-69), but may still fool the casual eye. The unique paper used for US dollar bills is not available to buy commercially (see page 69), so some counterfeiters will bleach the ink off lower value $1 and $5 bills and reuse the paper to print $100 bills.

Counterfeiting has been used as a weapon of war to undermine the enemy. During the American Revolutionary War, British forgers, known as shovers, put fake dollars into circulation to decrease the value of the US currency. During World War II, the Nazis attempted a similar strategy, forcing Jewish artists to forge British pounds and US dollars.