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Review of Good Money: Birmingham Button Makers, the Royal Mint, and the Beginnings of Modern Coinage, 1775-1821 by George Selgin

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[Reviewed by Jeffrey Rogers Hummel, Department of Economics, San Jose State University.]

Complaints about shortages of money have been ubiquitous throughout history. Yet many economists have tended to give this grievance short shrift. "No complaint," wrote Adam Smith in 1776, "is more common than that of a scarcity of money. Money, like wine, must always be scarce with those who have neither the wherewithal to buy it, nor credit to borrow it." One can even find this dismissal echoed in a recent edition of one of the two standard texts on U.S. economic history, *History of the American Economy*, written by Gary M. Walton and Hugh Rockoff, the latter of whom is a monetary economist. In discussing the shortage of specie (that is, of gold and silver coins) alleged by contemporaries during the colonial period in U.S. history, Walton and Rockoff write "that most colonists preferred to spend rather than to accumulate a stock of specie. After all, limited specie was simply another manifestation of a capital-scarce economy. To the colonists, it was more desirable to receive additional imports—especially manufactures—than to maintain a growing stock of specie."¹

Until recently, only a few economic historians seemed to have grasped that such complaints might mask a serious problem mis-identified. One of the first to do so was Carlo M. Cipolla, who in 1956 wrote about "The Big Problem of the Petty Coins" in medieval and Renaissance Europe. So long as the price level can freely adjust up and down, there can never be a shortage of money *per se*; but a denominational shortage can seem like one. If the economy is starved for money in small denominations, it can throttle economic exchange and the resulting gains from trade. Within the last two decades, a number of economists have studied such denominational dislocations in greater detail and with greater sophistication. The two most prominent contributions, at least until now, have been Angela Redish, *Bimetallism: An Economic and Historical Analysis* (2000) and Thomas J. Sargent and François R. Velde, *The Big Problem of Small Change* (2002). But George Selgin's impressive new study, *Good Money: Birmingham Button Makers, the Royal Mint, and the Beginnings of Modern Coinage, 1775-1821*, demonstrates that their analyses require significant modification.²

Long after the emergence of coined metallic money, both gold and silver continued in use. Gold's higher value to weight ratio made it more useful for large transactions, whereas silver was better for small transactions. Indeed, even full-bodied silver coins would often be too minuscule in the lowest denominations, so that coins made of copper or billon (an alloy of copper and usually silver) remained a more convenient alternative. But of



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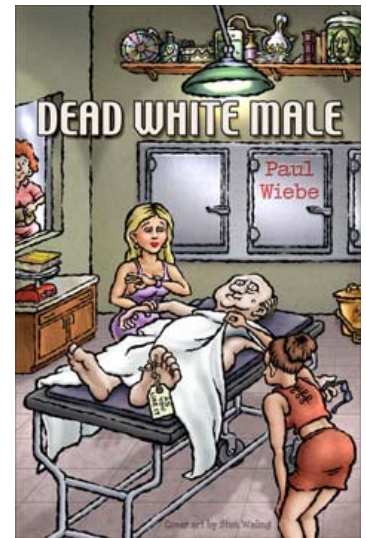
course the market exchange rates among these three metals could fluctuate over time. Princes and other rulers invariably tried to fix exchange rates through legal tender laws, official mint ratios, or other partly binding sanctions. But doing so only brought into operation Gresham's Law. If the fixed exchange rate was not at equilibrium, one metal would be overvalued and in surplus, and the other metal would be undervalued and in shortage. More often than not, it was coins used for the smallest transactions that were undervalued and would tend to be driven from circulation. In England, for instance, from the Great Recoinage of 1690s on through the next century, silver was undervalued relative to gold with the results that full-weight silver coins flowed out of the country, the Royal Mint virtually stopped producing silver coins, and the only silver coins remaining in circulation were significantly underweight.³

The works of Redish and Sargent-Velde, in fact, discovered that much coinage depreciation was driven by this process, rather than by the efforts of nobles and monarchs to boost their seigniorage revenue (although there was still plenty of the latter). Whenever coins made from the officially undervalued metal were being exported or melted down, they could be kept in circulation either through deliberate debasement or through "calling up" (i.e., enhancing) their face value. Sometimes depreciation would happen automatically from normal wear and tear on the coinage or from private clipping of coins and similar methods for shorting their metallic content. Sargent and Velde use a complicated but contested economic model to argue that such depreciation would be endemic even in the case of only a single metal providing full-bodied coins for all denominations (however physically inconvenient). Because coinage costs necessarily varied across denominations and mints only produced those coins purchased by the public with the requisite metal, mints would frequently produce the wrong denominational mix, causing deviations of the market value of certain coins from their face value.⁴

The alleged solution to this recurrent problem that plagued medieval and Renaissance commerce was what has come to be known as the *standard formula*. Small-denomination coins, rather than being full-bodied, should be tokens with a metallic value well below their face value but freely interchangeable at a fixed exchange rate for large-denomination, full-bodied gold coins (or under today's monetary regimes, for fiat currency). Although seemingly simple, the standard formula was not widely implemented until the nineteenth century. The British government supposedly adopted it in 1816, while the U.S. government waited until at least 1853. Some monetary historians have suggested that it took a long time for theorists to devise and appreciate the formula, whereas others claim that viable token coinage had to await technological innovations that would make it difficult for counterfeiters to flood the market with fraudulent tokens. But nearly all have agreed that only the State could successfully institute the standard formula.⁵

What Selgin's meticulous and wide ranging research reveals is that this last assumption is exactly backwards for Great Britain, the first country to implement the standard formula. The British government mainly hindered and sabotaged the development of token coinage, which instead arose privately. Not only had the Royal Mint's mispricing of silver effectively eliminated any new silver coinage by the end of the eighteenth century, but the mint had discontinued copper coinage as well. This only encouraged counterfeiting of the mint's inconvertible copper coins. The counterfeit coins at least provided some monetary services and by the mid-1750s already accounted for at least half the copper in circulation. All this was taking place at the outset of the Industrial Revolution, as the economy's monetary needs were rapidly expanding in response to the enormous shift of workers from the farms to factories and the unprecedented growth of retail trade. At a time when the daily laborer's wage averaged between one or two shillings (twelve to twenty-four pence) per day, a monetary system in which the smallest, non-counterfeit coin readily and widely available was the gold half guinea (equal to ten and a half shillings) hardly proved adequate. Nor could paper money fill the gap, since the artificially privileged Bank of England did not issue banknotes of less than five pounds (one hundred shillings), and Parliament soon outlawed the issue of small-denomination notes by other banks.

It was private entrepreneurs—not the Royal Mint—who finally alleviated the shortage with "tradesmen's tokens" or "commercial coins," beginning with copper "Druids" issued by the Parys Mining Company in 1787. Although a 1672 legal prohibition on private tokens was still on the books, it was



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unenforced, since the private tokens made no pretence of being coins from the mint, and indeed were noted for distinctive and exquisite designs. Within a decade there were a score of private mints, which had struck more copper coins than the Royal Mint had produced over the previous half century. Many of the new mint masters were button makers from Birmingham. It was also private entrepreneurs—not the Royal Mint—who curtailed counterfeiting with superior die engravings, producing high-quality coins of uniform roundness and milled edges. As a result, private entrepreneurs—not the Royal Mint—were the first to offer small-denomination coins fully redeemable for money of higher denominations. Nor did these counterfeit-proof coins require the development and employment of the steam-driven press, as Redish and Sargent-Velde believe. Only Matthew Boulton's Soho mint used steam presses, meaning that most of the eighteenth-century private tokens were manufactured without it. While many of the less familiar tokens circulated only locally, those issued by large-scale manufacturing and mining companies with good name-brand capital achieved nationwide acceptance. Despite not being legal tender, private tokens became so reliable that they generally commanded a 100 percent premium over any Royal Mint copper coins remaining in circulation. Indeed, Selgin makes a persuasive claim that, without private coinage, Britain's transition into sustained economic growth with its reliance on wage labor would have been stifled.

Private coinage did not solve all of Britain's denominational problems, partly because entrepreneurs hesitated to branch out into silver coins. There was no seventeenth-century legal precedent for the private minting of silver, as there was for copper, and being convicted of counterfeiting the Royal Mint's silver coins was a hanging offense, whereas the penalties were far less severe for counterfeiting copper coins. Then in 1797 the British government took a step backward. It granted Matthew Bolton an exclusive contract to provide the Royal Mint with copper pennies and twopennies, which would be issued enjoying limited legal tender. Known as Cartwheels, these coins were far from a success. In contrast to privately issued tokens, they were initially produced only in higher denominations, had a copper value close to their face value, and were not redeemable at the mint for higher denomination coins. Eventually the naval demand for copper during Britain's wars with France drove up copper's price, making the metallic value of Cartwheels exceed their face value. Substantial quantities were melted down despite a legal prohibition against doing so. Fortunately the older, private tokens continued in circulation, but fears that the government would suppress commercial coining inhibited their further production and aggravated the small-coin shortage.

Active private minting recommenced in 1811, this time resulting in some silver as well as copper coins. Apparently the Bank of England's recent issue of its own silver coins, without recourse to the Royal Mint, had emboldened private entrepreneurs to try again. But this second round of commercial coining was short lived. Facing pressure from the mint and its political allies, Parliament passed in 1813 the Local Tokens Act, outlawing private coinage. (The ban on private silver coins did not actually take effect until two years later, and copper tokens were not suppressed for another three years after that.) Parliament finally authorized the mint to issue its own small-denomination token coins in 1816, and that year is usually reported as the one in which Britain adopted the standard formula. But not until 1836 was the full convertibility of these tokens at a fixed exchange rate legally nailed down, making the Royal Mint's small coins for the first time the economic equal of those that had been privately issued a half century earlier.⁶

In recounting this fascinating story, Selgin carries us far afield from the monetary theory he thoroughly covers in his first chapter. Indeed, *Good Money* is one of those very rare works that seamlessly integrates the disciplines of economics and history, while adhering to the highest standards of scholarship in both. It opens a window onto the business history, the technological developments, the manufacturing techniques, and the numismatics of the period, with a mastery and richness of detail that is truly impressive. It engagingly captures the human side of its history, revealing the full range of virtues and foibles exhibited by the assorted businessmen and entrepreneurs who established and ran the private mints, some of whom resorted to such skullduggery as lobbying for monopoly grants from the government. The book is also graced with sixteen pages of full-color plates beautifully displaying many of the most important private tokens, along with other photos and prints. For readers who want still more, Selgin provides a [link](#) to his "Ramble 'Round Old

Birmingham," a historical tour through the Birmingham of the private minters. Overall, the book is a splendid achievement that should become the standard authority on this monetary episode.

The importance of Selgin's *Good Money*, however, goes well beyond resurrecting and correcting the historical record about a single episode. The problem of small coins turns out to have been far more widespread than historians or economists generally acknowledge, or often it is mistaken for a shortage of money generally and therefore grossly misunderstood. The works of Redish and Sargent-Velde cover numerous other instances from the medieval and Renaissance eras, many of which might repay deeper study and possible reevaluation in the light of Selgin's findings. Another case I mentioned at the beginning of this review is the complaints about monetary shortages in British colonial America, an area that would obviously be affected by dislocations prevailing in the mother country. One of Redish's journal articles already explores a similar grievance in British Canada, discovering unsurprisingly that denominational shortages were, once again, the root cause. The same phenomenon has arisen even today under fiat money, in Buenos Aires, Argentina, where it has now become difficult to make change. A case that particularly cries out for more detailed investigation is that of the post-Civil War United States. Along with other economic historians, I have elsewhere argued that the wartime financial expedients adopted by the Union, particularly the National Banking System, deprived the defeated South of cash in small denominations. Although privately and usually illegally issued "shinplasters" helped to curb the shortage in the South's urban areas, they could not function well in the agricultural sector, which therefore had to fall back on such essentially barter arrangements as sharecropping and store credit repaid in crops. Hopefully other scholars, or Selgin himself, will be inspired to direct their future research and writing to some of these cases. Z

Still more important are the implications of Selgin's microhistory for monetary policy today. As Selgin himself emphasizes, "the payoff of the commercial coinage story consists not in any particular reform it might suggest but in the broader lesson it teaches concerning the need to ponder government's role in money through the same wary eyes economists tend to cast upon other government ventures. Despite being perfectly aware of the general drawbacks of monopoly and nationalization and also despite their recognition of how narrow fiscal motives led governments to usurp control of money in the first place, even otherwise incredulous economists tend to take governments' monetary prerogative for granted. The outcome has been a body of monetary thought well suited toward tinkering with existing government-controlled monetary systems but not at all cut out for revealing the advantages, as well as the true shortcomings, of less top-heavy alternatives" (p. 305).

Indeed, the current, international financial crisis might cause Selgin to retract his concession that current monetary thought is "well suited toward tinkering with existing government-controlled monetary systems." Events have brought the Federal Reserve System, along with general notions of government-managed currencies and centrally planned interest rates, under increasing criticism. Unfortunately, even as radical and insightful a contribution as Been Steil and Manuel Hinds's recent *Money, Markets and Sovereignty*, which persuasively argues that nationalistic fiat moneys are ultimately incompatible with economic globalization, buys into the myth that government was needed to implement the standard formula. Despite Steil and Hinds's recognition that it is a "textbook fiction" (using the phrase of monetary theorist Robert Mundell) that the State played any essential role in money's origin, they still write that "governments needed to impose a single commodity anchor, such as gold coins or bills redeemable in gold, and to make smaller denominations into limited-supply tokens, convertible into the commodity anchor at a fixed rate guaranteed by the government." Yet if government intervention is truly necessary to solve the big problem of small change, how will it ever be possible to achieve an international money free from the machinations of the nation-State? g

The overarching value of Selgin's study, then, is to offer a concrete illustration of how voluntary interaction on the market solved a complex monetary problem and of why governments were the primary source of the problem in the first place. We can only share his hope that "perhaps awareness of Great Britain's commercial coinage experience will help nudge [monetary] thought onto less well-traveled paths" (p. 305).

1 Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (1776; reprint, Indianapolis: LibertyClassics, 1976), v. 1, p. 437; Gary M. Walton and Hugh Rockoff, *History of the American Economy*, 10th edn. (Mason, OH: South-Western, 2005), p. 81.

2 Carlo M. Cipolla, *Money, Prices and Civilization in the Mediterranean World: Fifth to Seventeenth Century* (Princeton, NJ: Princeton University Press, 1956), p. 27; Angela Redish, *Bimetallism: An Economic and Historical Analysis* (Cambridge: Cambridge University Press, 2000); Thomas J. Sargent and François R. Velde, *The Big Problem of Small Change* (Princeton, NJ: Princeton University Press, 2002).

3 The validity of Gresham's Law has been challenged by Arthur J. Rolnick and Warren E. Weber, "Gresham's Law or Gresham's Fallacy," *Journal of Political Economy*, 94 (February 1986): 185-99. The law has been defended by Robert L. Greenfield and Hugh Rockoff, "Gresham's Law in Nineteenth Century America," *Journal of Money, Credit, and Banking*, 27 (November 1995, Part 1): 1086-98; Thomas J. Sargent and Bruce D. Smith, "Coinage, Debasements, and Gresham's Law," *Economic Theory*, 10 (1997): 197-226; Robert Mundell, "Uses and Abuses of Gresham's Law in the History of Money," *Zagreb Journal of Economics*, 2 (no. 2, 1998): 30-38; and most comprehensively by George Selgin himself, "Salvaging Gresham's Law: The Good, the Bad, and the Illegal," *Journal of Money, Credit, and Banking*, 28 (November 1996, Part 1): 637-49. See also Selgin, "Gresham's Law," *EH.Net Encyclopedia*, ed. by Robert Whaples (June 9, 2003): URL <http://eh.net/encyclopedia/article/selgin.gresham.law>.

4 Neil Wallace offers a powerful critique of the Sargent-Velde model in "Modeling Small Change: A Review Article," *Journal of Monetary Economics*, 50 (August 2003): 1391-1401, a critique that Selgin finds persuasive. The model that Sargent and Smith present in "Coinage, Debasements, and Gresham's Law" does cover the bimetallic case and is slightly easier to follow than the presentation in *The Big Problem of Small Change*. The most accessible summary of the Sargent-Velde model is probably Arthur J. Rolnick and Warren E. Weber's review of *The Big Problem of Small Change* in the *Journal of Political Economy*, 111 (April 2003): 459-63.

5 Some authors, such as Cipolla, add to the standard formula a limitation on the quantity of small coins, but as long as the coins are convertible and counterfeiting is minimized, the relative quantity will automatically adjust to demand.

6 Similarly, while the United States issued its first token silver coins in 1853, they were not legally convertible into gold coins at the Treasury until 1879. Moreover, this early token coinage contained so much silver that during the inflation of the Civil War it was melted down and disappeared from circulation.

7 John R. Hanson, II, "Money in the Colonial American Economy: An Extension," *Economic Inquiry*, 17 (April 1979): 281-86, suggests that denominational shortages might explain the penchant of British colonies in North America for the issue of paper fiat money. Angela Redish, "Why Was Specie Scarce in Colonial Economies? An Analysis of the Canadian Currency, 1796-1830," *Journal of Economic History*, 44 (September 1984): 713-28, is her examination of Canada. For a brief discussion of Argentina, see James Surowiecki, "Change We Can't Believe In," *The New Yorker*, 85 (June 8 and 15, 2009): 42, and George Selgin, "Argentina Is Short of Cash—Literally," *Wall Street Journal*, (January 5, 2009), A11. For the case of the post-Civil War South, see Jeffrey Rogers Hummel, *Emancipating Slaves, Enslaving Free Men: A History of the American Civil War* (Chicago: Open Court, 1996), pp. 324-27, 344-46; and Hummel, "The Civil War and Reconstruction," in Price Fishback, et. al., *History of the American Government and Economy: Essays in Honor of Robert Higgs* (Chicago: University of Chicago Press, 2007).

8 Benn Steil and Manuel Hinds, *Money, Markets and Sovereignty* (New Haven: Yale University Press, 2009), pp. 79-80.

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