Britain and the Pound Sterling
by Robert Schneebeli

Weight of metal, number of coins

For the first 400 years of the Christian era, England was a Roman province, «Britannia». The word «pound» comes from Latin: the Roman *pondus* was divided into twelve *unciae*, which in turn gives us our English word "ounce". In weighing precious metals the pound Troy of 12 ounces is used, 373 grams in metric units. In France, instead of *pondus*, the Latin word *libra*, weighing-scales, was used instead, so that «pound» in French is *livre*. That is why, when we weigh meat, for example, and want to write seven pounds, we write 7 lb., as if we were saying *librae* instead of pounds. And if we're talking about pounds in the monetary sense, we also use a sign that reminds us of the Latin libra – the pounds sign, £, is actually only a stylised letter L.

In the 8th century, in the age of King Offa in England or of Charlemagne in Europe, when the English currency began to be regulated, it was not the pound that was important, but the penny. The origin of the word «penny», and how it came to mean a coin, is obscure. A penny was a small silver coin – for coinage purposes silver was more important than gold (for example, the French word for money, *argent*, comes from *argentum*, the Latin for silver). Alfred the Great, the most famous of the Anglo-Saxon kings, fixed the weight of the silver penny and had pennies minted with a clear design.

After the Norman Conquest in 1066, the English coinage became more complex. Not only that; strong rulers brought order into the state finances, while under weak rulers the budget and the coinage became chaotic. For many centuries a large number of moneyers had the right to mint coins. It was difficult to keep a check on them and to prevent forgery. Coins in circulation were often clipped or filed down to obtain silver. And like rulers in many countries, English kings committed royal forgery to get out of financial difficulties – they lowered the silver content of coins by adding base metal, so that they had a larger number of coins with which to pay their debts. Over time, the silver content of the penny varied considerably.

Pounds, shillings and pence

In the 12th century, the pound Troy was joined by the pound sterling. The original meaning of the word «sterling» is obscure, but in the course of time it came to mean «solid, reliable», as in «sterling qualities». Sterling silver, for example as used to make cutlery, is 925 parts of pure silver per thousand, or 92.5 per cent silver. Thus sterling currency was pure, unadulterated money, and later simply meant English currency. King Henry VII, who ruled from 1485 to 1509, was a rarity among medieval monarchs – a good accounter and bookkeeper. By his time the system had become fixed: 240 pennies (as the coins were called when counted as individual coins) weighed one pound sterling, and thus were one pound sterling. A twentieth part of a pound was a shilling, or twelve pence (as the amount of money represented by twelve pennies was called). Just as the £ stood for Latin *libra* meaning pound, so *s*. stood for *solidus*, meaning a shilling, and *d*. stood for *denarius*, a penny. Latin names were used because when sums of money were written at all, it was most often in legal documents, in which the language was Latin till the sixteenth or seventeenth century, and in which abbreviations were common. So £9 6*s*. 3*d*. was the normal way of writing the sum of nine pounds, three shillings and threepence (in the old pre-decimal money the numbers of pence were written as one word, «fourpence», «elevenpence», etc.).

The pound sterling, formerly a mere unit of accounting, became for the first time a coin with a portrait of the king on it, called a sovereign, in the same way as a later French gold coin was called a Louis d'or, as it bore a portrait of King Louis.

An advantage of this system was that the pound sterling could be divided by 3, 4, 5, 6, 12, and many other numbers, although it did not fit into a decimal system. But for centuries, till the late 20th century, that was no problem. In the Middle Ages there was a range of other coins between the pound and the shilling, such as the noble, the angel, the florin and the crown, as well as the term «mark» for the sum 13*s*. 4*d*., exactly two thirds of a pound. Until the introduction of decimal currency in 1971, the terms "florin" for a two-shilling piece and «half crown» for a coin worth 2*s*. 6*d*. or «two and six» were still used – the sum of money, of whatever coins it was made up, was called «half a crown», while the coin worth half a crown was called «a half crown». There were coins worth a shilling, sixpence and threepence, and in earlier times also fourpence, the groat. The penny was now made of copper, and before decimalisation there was also the halfpenny (pronounced «haypni»), and until 1960 the farthing, a quarter of an old penny.

More trade, more money

The medieval economy was initially based on self-sufficiency, but in early times trade began to be important. From the 11th century onwards, the cities began to grow in size and importance, and from the 13th century almost a thousand places had the right to hold a market. Initially England largely exported raw wool to the Continent, later yarn and worked cloth, while it imported luxury goods such as wine and furs, as well as luxury textiles, since the English textile industry was still in its infancy. Feudal obligations in the form of goods or work were replaced by payments in money. Work for money replaced work for board, lodging and clothing.

With the advent of trade, the importance of money and the amount of coins in circulation increased. Often the amount of coins in circulation proved to be too small for the volume of trade, which led to the use of foreign coins. Bargaining over prices was complicated by the necessity to haggle over what currency was to be used for payment. Business was made easier by the bill of exchange, a written promise to pay the holder of the document a given amount of money on a given date. The bill of exchange could be passed on by the first, second, third or even later holders to pay debts, and presented for payment by the last holder in the chain. That was the beginning of trade on credit. There were people who specialised in exchanging bills of exchange and in granting credit. The first such money-changers and money-lenders were Jews. But the Jews were expelled from England in 1290, and were only allowed to settle in England once more by the Puritans under Oliver Cromwell from the 1650s onwards. After the Jews came the Italians, who were invariably called Lombards in England – the street in the City of London in which they did their business is still called Lombard Street.

A new class of society is formed

From the 16th century on, more and more large-scale merchants appeared. This caused a profound change in agriculture. Arable farming decreased, while sheep-rearing and wool production increased, which led to the slow disappearance of independent farmers. And in the course of time, fine English cloth began to compete successfully with cloth from Flanders. The markets for many products grew, and more and more merchants began to trade between producers and consumers. These merchants took the opportunity to earn profits by finding out the best conditions on both sides and supplying the goods. From 1600, English merchants began to trade with India, and

English settlers began to put down roots in America. The settlers needed equipment from the mother country, and soon began to sell such goods as tobacco and sugar in Britain in payment. If a businessman was good at his job, he could become rich faster, and become altogether richer, than a craftsman or a farmer. But he naturally needed more capital as well, and took greater risks, above all in overseas trade. This led merchants to join together to form joint stock companies. These were the forerunners of modern limited companies; they brought capital together, shared risks, and shared the profits in proportion to their investments.

In England, great importance was always attached to a well-regulated business world. Just as in the Middle Ages all crafts and markets were regulated by guilds, so the early modern merchants sought to guarantee the market for their goods, at a price largely set by themselves, by means of a privilege granted by the monarch. The monarchs, in their turn, found this useful, for they received payment for setting up such monopolies, and their monetary requirements grew faster than the national product. In the second half of the 16th century, Queen Elizabeth I took to heart the insight of the experienced and learned financier Sir Thomas Gresham, who said that bad money would drive good money out of circulation and out of the country, because every buyer of wares wanted to get rid of his bad money, while a seller who received good money for his wares would always try to keep and hoard that good money. So Elizabeth made sure that only good, trustworthy coins were minted. Her successors, however, the four Stuart kings, did not follow her example. Their bad financial policy and their attacks on the rights of their subjects led to a civil war with disastrous consequences for the whole of the economy. Only with the introduction of fully responsible government in 1689 did Britain achieve a stable financial order favourable to economic prosperity. From 1699 to 1725 the master of the Royal Mint in the Tower of London was Sir Isaac Newton, the greatest physicist and mathematician of his day. Now all coins were minted in the Tower, and they were not so easy to forge or to clip.

Mercantilism

Of course the British were not the only ones who saw the connection between trade and wealth. The idea of mercantilism spread – that is, the opinion that the wealth of a country arose primarily, if not entirely, through trade: a nation that sold more than it bought, and received more good money in trade than it spent, would become rich. But the ones who profited were not only those who produced more and better goods for export, but also those who served as middlemen or transported goods between various foreign nations. And these people, of course, were mainly the seafaring nations, the English and the Dutch, just as the Venetians and the Genoese had been in the Middle Ages. This view of trade led in the 17th century not only to vigorous trade and fierce competition in business between the merchants of different countries, but also to several wars between Britain, Holland, Spain and France. But in the words of a general of those days, to wage a war three things were needed: money, money and more money. So wars were fought for the control of sources of raw materials, markets and shipping in order to make money, and money was spent in the waging of war.

At the turn of the 17th and 18th centuries, Britain, allied at times with Holland and the Hapsburg empire, fought two long wars with France. It was largely to finance these wars that in 1694 the Bank of England was founded. The state borrowed money from the bank's capital, and reliably paid interest on that capital. Thanks to this system, England, which had become the United Kingdom of Great Britain after the union with Scotland in 1707, was in a position to finance the many wars of the 18th century. These wars first led to British domination in North America, in the Caribbean and in India, but caused the thirteen original American colonies to be lost. Finally, in 1815 Britain emerged victorious from the long series of wars against revolutionary France and Napoleon.

The pound sterling and the British Empire

At the same time, Britain advanced during the 18th century to become the leading country in almost all areas of economic activity and in almost every region of the world. Its population increased rapidly, from 5.5 million in 1700, to about 10 million in 1800, about 47 million in 1900, and about 55 million today.

As early as the age of mercantilism, Daniel Defoe stated that the most important business in life was making money, and he also saw that wealth does not consist in the possession of money, but in the goods and services one can buy with it. Defoe was a brilliant reporter, and was famous as the author of «The Life and Strange Surprising Adventures of Robinson Crusoe of York, Mariner». In the book, Robinson saves a chest of gold coins from the shipwreck, but since he has no market in which he could use them to buy things, all their glitter is useless, whereas the tools he saves permit him to carry on his life. A thinker who exhaustively described the economics of his day was the Scotsman Adam Smith, who wrote his "Inquiry into the Nature and Causes of the Wealth of Nations" in 1776. At that time, the British invented the steam engine, the mechanical spinning machine and the mechanical loom, and somewhat later railways; in the 19th century they improved steel production and utilised their rich coal deposits. They became the builders of railways and ships for the the whole world.

They also improved the techniques of banking and insurance. On the one hand, the sovereign, the gold coin with the portrait of Queen Victoria on one side and St George killing the dragon on the other, was still to be found, in circulation and in the waistcoat pockets of prosperous gentlemen. However, by now many payments were made with banknotes, which had become legal tender and could be exchanged at any time for gold at the Bank of England. But people who had a bank account usually paid by cheque. Many British products and services were the best in the world, and were hence in high demand; many markets were under British control, the pound sterling was the strongest currency in the world, and was used for most transactions.

Britain adopted free trade in 1846, and for decades from then on charged no customs duties to protect its domestic products against foreign competition, which had been common practice earlier and was still practised by many countries. More and more, British investors found opportunities to invest capital in foreign countries. Not only was Britain rich enough to do so; it could afford to spend more money in trade than it received, since it had enough other sources of income through shipping and financing.

Loss of power and wealth in the 20th century

In the last three decades before the First World War, the British Empire embraced not only Britain and the whole of Ireland, but Canada, Australia, New Zealand, India, parts of Asia, large parts of Africa, and many islands in the Caribbean, the Atlantic, the Pacific, and the Mediterranean – altogether about a quarter of the land area of the globe. But other countries, above all Germany and the US, were already starting to catch up and overtake Britain. The United States dollar was gaining in importance beside the pound sterling. The First World War weakened Britain economically, as it was forced to become indebted to the United States. And the vast empire was simply too big for the small mother country. During the war, the Bank of England suspended the convertibility of banknotes against gold. In 1925 Britain returned to the Gold Standard, but was forced to abandon it again during the great economic crisis after 1929. In the Second World War, Britain's currency reserves were soon exhausted by having to pay for the American economic, and later military, aid which enabled Britain to continue the war up till the victory of the Allies.

At the end of the war in 1945, Britain was poor, not only because many of its cities had been damaged by bombing and because its reserves were exhausted, but also because many of its factories were not as efficient as they had been earlier. Britain had been overtaken by other countries in coal production, steel production, shipbuilding and the textile industry. The control of markets inside the Empire had stifled any drive for innovation. The high unemployment between the wars had poisoned relations between employers and workers. The postwar nationalisations did not bring any improvement in efficiency. As the Empire shrank, so the area in which the pound sterling was the currency rapidly shrank until it consisted only of the United Kingdom and a few islands, and the pound sterling decreased in value against other currencies. In February 1971, decimalisation was introduced, the shilling was abolished, and with it the old Latin abbreviations for shilling and penny; since then the pound has consisted of 100 new pence, so that for example a sum of just less than £100 is now written £99.99p. Neither banknotes nor coins have any substantive value; they are only a means of exchange in economic transactions. Money is now only a means of fixing the value of transactions.