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## THE EMERGENCE OF MONEY – INSIGHT INTO THE MIDDLE AGES AND THE NEED OF BANKS

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**Abstract:**

*Money is the blood of the economy. Here is an aphorism validated by historical experience, a historical truth that transcends all ages and all economic and political systems. (Buzatu N., G. Popa, 2003). Since ancient times, people were forced to exchange goods and services, natural conditions, cultural and religious backgrounds, were abundant in some areas and partially or totally absent in others. As a consequence of certain historically determined relations of production, at a certain stage of social development money came as a necessary product of the change process. (Kirîțescu C. Costin, Emilian M. Dobrescu, 1998). The emergence of money required to create specialized institutions to deal with their management, institutions, known as banks. Timing banks can not be ascertained accurately due to the distant past. This article proposes not only an overview of historical events that have marked the emergence of money and banks or a definition of terms, but wants to make an incursion at a time "long forgotten in the mists of time, but so strongly anchored in reality because of the emergence of money and the banks accordingly.*

**Keywords:** *money, banks, merchant, usurer, bill.*

**Money and banks in the medieval period** (Jacques Le Goff, 1970)

Bruno Hildebrand divided the economic development of society into three phases: natural economy, economy-money and economy-credit.

Barter has played a particularly poor role in medieval exchanges. By natural economy in the Medieval West we can understand an economy where exchanges, all exchanges were reduced to the bare minimum. Natural economy would be almost synonymous with the closed economy. (ibidem.)

In the medieval West, the currency has never completely lacked from transactions, even in the peasant society. Grand mediaevalist Marc Bloch avoids the term "natural economy" instead campaigning for the term "money hunger". (Marc Bloch, 1996).

The coin is valued according to its intrinsic value, not volume, but as a commodity, the theoretical values stated on the front or back of them have no worth, but the true worth is contained in the precious metal they are made of.

Historians were especially impressed by the monetary renaissance of the thirteenth century and by the resumption of gold coins and batteries such as the Genoese florin of 1252 or the 1284 ducati. (Jacques Le Goff, 1970)

In Christianity there was a traditional distrust of money, but scarcity of money in the early Middle Ages rather gave them a sign of strength. Money becomes a symbol of political and social power rather than economic. (ibidem.)

Those who seem to benefit more from the development of the monetary economy are merchants.

### **About merchants and the emergence of banks and bankers**

Due to monetary developments and progress of cities a new class is emerging whose economic power is based more on money than on land. (ibidem.)

The merchant, in the early fourteenth century, was always by definition a seller of exceptional, rare and luxurious products.(ibidem.)

Merchants were pardoned and accepted by the Church, as opposed to lenders that the same historical Le Goff describes as a necessary evil: Vampire twice as scary in the christian society, money swallowe is often equated to the Jew, criminal, infanticide, and profane the sacrament. In a world where money is God, in which money is the winner, money is king, money is sovereign, the avarice, cupidity, bourgeois sin for which usury is more or less daughter, head of the seven deadly sins gorgeous, pride, medieval sin - usurer, loan specialist with interest becomes a necessary and hated man, strong and fragile. Usury is one of the major problems of the thirteenth century. At this time, Christianity at the height of the glorious development, after the year 1000 is already in distress. The eruption and dissemination of monetary economy threatens the old Christian values. A new economic system is ready to build, the capitalism, which needs for starters, if not new techniques, the massive use of the practices which the Church has always condemned. (Jacques Le Goff, 1993)

Italians were the pioneers of trade within the context of the above but also amid the Crusades, the first city that will see the importance of maritime trade was Amalfi. (Anna Maria Galli, 1992). Their main skill seems to have been simply that of knowing that in the Orient the prices were stabile which allowed them to calculate the benefit in advance. (Jacques Le Goff, 1970)

In his book "The merchants and bankers in the Middle Ages ", Le Goff wonders whether the medieval society named those who had as object of activity: trade, financial transactions of all kinds, speculation, land and real estate institutions "merchant-banker".

The medieval merchant even has a portrait: it had to have a permanent taste of risk or even a sense of danger, have a minimum of basic knowledge. Merchant activity depends on a more or less extensive organization in a company or home

business, and they handle, as far as possible, the market and not only to act within it. (Jacques Le Goff, Jean-Claude Schmitt, 2002).

There is an itinerant merchant and a sedentary merchant, the latter reaches its climax in the fourteenth and fifteenth centuries. The sedentary merchant becomes so widespread that we can only imagine him at the center of the cobweb which he had built in his time with his business. Very soon the merchant found himself forced to find capital elsewhere than within their own resources. The question now is credit. (ibidem.)

### **Contracts and associations**

The contract called „commenda” or „societas maris” at Genova and „colegantia” at Venice. The person who orders something, loans to an itinerant merchant a sum of money for the business travel. If damage results, the lenders bear the financial loss, while the debtor is suffering his work value. If there is profit resulting, the lender receives all his money back plus some benefit, usually three quarters.

The special "commenda" – the person who orders something but does not travel and he borrows the other two thirds of the capital, and the one that lends further contribute one third plus his work. The damage in this situation is borne in proportion to capital invested and the profit is divided in half. (ibidem.).

the land contract is called "compagnia" and "societas terrae. The “compagnia`s” parties are closely related, bear with risks, hopes, losses and profits.

- the “societas terrae” resembles more to the “commenda”: the one who lends the money supports risks of loss but gains are generally divided in half
- around certain merchants, families or groups powerful and complex organisms arose who have traditionally been given the name "companies" in the modern sense of the term. (ibidem.)
- the most famous and illustrious Florentine families were Peruzzi, Bardi and Medici.
- from the fifteenth century, a house like the Medici family is decentralized. It is comprised of separate associations, each having its registered capital. In addition to headquarters in Florence, there were branches in London, Bruges, Geneva, Lyon, Avignon, Milan, Venice, Rome, led by executives who only partially and incidentally were actually employees for they were ordering important parts of capital. (ibidem.).
- these big powerful companies and these characters could develop into true monopolies which even then could have been called "cartels" (ibidem.)
- Closer connections between princes and merchants during the Latter Middle Ages, leads to increased risks. Sovereign insolvency is largely to blame for some resounding bankruptcies of banks during the fourteenth and fifteenth centuries. Other cases were imprudent expansion of credit and business manner, and especially economic and monetary situation. But soon the bankruptcy legislation comes to mitigate the disastrous effects. (ibid.).
- Death sentence or prison is exceptional along with the auction sale of the bankruptcy estate assets in order to indemnify the creditor.

- It requires custom to grant a bankruptcy estate on the run a "laissez-passer" for a specified period of time to resolve the dispute settlement with its creditors.
- Insurance or "securitas" is originally a laissez-passer, but at the end of the thirteenth century is a kind of insurance contract whereby some traders goods entrusted to someone who, in exchange for a sum paid as "securitas" is committed to deliver namely those goods in place. (ibidem.)

Use of bills or "cambia" which is a specific agreement under which one who "gives" money to provide a person who "takes" in exchange for a commitment of time payable (loan transaction), but in another place and another currency (exchange transactions). (ibidem.)

There are several categories of merchants:

- Flemish merchants no longer have to travel to acquire goods, now the Genoese and Venetian galleys load and unload products at Bruges
- Flemish merchant becomes a passive and sedentary: the broker
- There is a certain specialization of business. It forms categories varying by region, countries, cities.
- The example given by the historian Jacques Le Goff is Bruges: here there are several categories such as "lombards", "brokers" and "exchangers" of those who change.
- Lombards or the "cahorsins" are those who borrow money on pawn, loan sharks who practice short-term loan. Their clients are rarely important people (ibidem.)
- Under the Lombards are brokers. They practice their profession next to a counter or a bank ("bancho") or a table ("tavola"), outdoors or in a shack on the street. They are grouped to facilitate customer transactions. (ibid.)
- Among occupations this includes the exchange of currencies and trade in precious materials, receiving deposits of money, investments through loans. Therefore, this class became bankers. (ibid.)
- At the top of the pyramid we find the "exchangers". They are called in Florence merchant-bankers (banchi grossi). They practice the bills trade, international goods trade, accepting deposits of money, take credit operations, they are part of several "companies" and also deal with insurance. At Venice are wholesalers, but other parts of the world they are staying in shacks or are "lombards". Their operations do not occur "outside" but "inside" that is in their own home. (ibid.)

Over time, the coin became an almost universal means of payment, until it becomes very cumbersome compared to the volume of goods on world markets an alternate easier to handle came under need. Therefore, by the seventeenth century appeared bill. It is the emergence of money, banknotes having no relation to the value of metal coins were made of (gold, silver, etc.), but with that value assigned to them.

Coins continued to be used but in more reduced quantity in favor of paper currency signs which have acquired greater importance at first and then tickets treasury notes and various forms of paper currency.

**The need for setting-up banks.**

There are some theories that link the occurrence time of the coin with banks. Banks are linked with the occurrence of work as an intermediary between those who have temporary financial resources available (depositors) and those who need additional financial resources for a certain period of time (loan). (Petrascu D., 2008).

The fact is that when the invention of writing, some operations related to banking and securities, credit or storage enclosures temples were already widespread and were part of the economic life of cities states located along the Tigris and Euphrates rivers, as evidenced by discovered thousands of clay tablets with cuneiform characters, dating from the fourth millennium, many of which were credit receipts. (A.A.P. Beer, 2003).

Bible in the book of "Exodus", refers to the practice of loan. Egyptians, Assyrians, Jews, Greeks and Romans dealt, in addition to trade with exchange of precious metals and coins to. So came the first "bankers". In the early fourth century, in addition to public banks, private bankers appear. One one hand heir need first came for economic reasons as designed to combat usury and on the other from political reasons. These first public banks, in addition to operations to attract deposits and lending, had the right to issue coins and collect taxes. The emergence of banks in the modern sense of the term, took place after 1100, when trade, exchange, payments and credit have seen a great development. (ibidem.).

Therefore, banks first appeared in Italy in Venice (1171) and Genoa (1407) and then in Amsterdam (1609), Hamburg (1619), Rotterdam (1635), etc.. In Romania, the first bank appeared in 1857 - National Bank of Moldova. These were institutions that made possible the mediation of payments between one account holder (paying) and another account holder (beneficiary).

The emergence of central banks has occurred relatively late. From an historical perspective, central banks have occurred either by turning a commercial bank and change its objectives, whether by newly established institutions, with a clear mandate and objectives. (MC Isarescu, 2001).

Regarding the existence of the first central bank, opinions are divided, with some researchers considering Swedish Royal Bank (1656) as the world's first central bank to issue currency (bank that went bankrupt in a short time due to the issue of banknotes without coverage), while others believe the Bank of England established in 1694 to be the first central bank closest to the current, modern sense.

During the formation of capitalism, banks had an important role in collecting and drawing from the capital, amounting to savings from all social strata and make them available to entrepreneurs in the form of capital.

In the nineteenth century the first banking houses were created, which were providing mediation services, counseling and mandate, but whose power lies not in the capital that could raise but in the wealth and prestige of the founders. Also when the first commercial banks appeared, which had as main activity the collection of deposits and business ownership, Commercial banks were established as joint stock companies extended around the world.

The first commercial banks have appeared in highly developed countries in the second half of the nineteenth century, and some of them still exist today: in Germany: Darmastadter - Bank, France: Credit Mobilier and Credit Foncier, in England: Lloyd's Bank and Middle Bank.

The twentieth century presents a real banking industry, banks becoming true financial forces with powerful influence in the economic and political life of the contemporary world.

In conclusion, the emergence of banks was a lengthy and complex process, much more complex than appearance money.

### **Brief history of the national banking system**

The first bank to emerge in Romania was National Bank established in 1857, based in Iasi with offices in Galati and Bucharest. This bank went bankrupt after only one year and three months of operation, due to speculative business in which its leaders have been haphazard.

In April 1880 the National Bank of Romania was established. As a curiosity, it bears noting that the National Bank of Romania is one of the oldest in the world (in fact the sixteenth central bank), ahead of, prestigious institutions such as Bank of Japan, Bank of Italy, Federal Reserve Bank (USA) or the Swiss National Bank. (Isarescu M. C., 2001).

The establishment of the National Bank of Romania has given momentum the banking capital development, especially between 1880 and 1914. This development was affected by World War I and the economic crisis between the years 1929-1933. In this context, from a total of 1102 commercial banks in 1930, there were only 484 banks in 1938 and in 1940 (prior to territorial cessions) 446 banks, the remaining banks have gone through liquidation and merger. Five banks focused, however, 25% of the total capital and 45% of the balance sheet figure. (Odobescu E., 2000).

In 1934 the Bank Board of Governors was established, which created a legal framework for prudential supervision of banking business and the "Law in order to facilitate loan recovery" in 1935 had established the basis for merger banks for merger of bank capital.

For that period we can talk about a modern Romanian banking system, which was comparable to industrialized countries in Europe at that time.

On January 1, 1947 the National Bank was nationalized under the Law no. 1056/1946 and in 1947 by Decree no. 197 private banks and credit institutions were dissolved and put into liquidation. In this way it was achieved a central banking system, with the National Bank of Romania accumulating most of the functions and banking. From 1947 to 1990 in addition to the National Bank have also functioned: Romanian Bank for Foreign Trade, Investment Bank, Bank for Agriculture and Food Industry, Home Savings Bank.

After 1990, the mono banking system specific to planned economy was replaced back with a system organized on two levels where the National Bank is responsible for the conduct of monetary policy and exercises the functions of central

banks and commercial banks and other depository institutions are attracting features of cash and loans. The commercial banks system, which operate as merchant banks, universal or specialized in Romania, was reinstated on 1 December 1990 through the establishment of the Romanian Commercial Bank, which took over all business operations of the National Bank of Romania, creating the core commercial banking system. The decentralization of the banking system, the emergence in 1991 of its first specific legal regulations concerning the separation of functions and to legislate the National Bank to commercial banks, further underlying the transformations that took place in the banking system. (Nitu I. 2000).

### **Instead of conclusions**

Mankind, for almost 3,000 years has money available in various forms: metal (bronze, silver, gold), paper, account, "plastic" (credit cards) and now electronic money. (Petrascu D., 2008)

At the same time, money attracts like a magnet, obsesses, upsets the balance, disturbs minds, and for acquiring them, some do not stop from antisocial, illegal or wicked behavior. Pity, shame or fear is no hindrance for those whose avidity, greed, desire and aspirations for enrichment and the top power are above all human law or divine law itself. (V. Birla, 2005).

Due to economic development, currently the world has a growing number of people in charge of handling money for the benefit and account of others.

Due to economic development, currently there is a growing number of people in the world in charge of handling money for the benefit and account of others.

Those circulating money in turn make money from it, learning, working, creating and giving their soul, like any other man for their work. This concern has progressed to a size so large, that today does not matter how money are earned or acquired, work or not, becomes ever more essential for them to be used in any way, passed from one hand another, so as to produce a giver and a recipient satisfaction, if not material, at least moral. At the end of this exercise, the participants at this game get to compare with each other directly or indirectly, to confront, to appreciate each other or to develop their capacity to be better, stronger, tougher, more compassionate, more tolerant, more attractive and independent. (I. Cetin, E. Odobescu, 2007).

Products and services related to money, have attained a development which absorbs human attention, efforts and concerns of society, creating a new degree of interest, convenience (credit cards, for instance), stability or security (insurance), emotions (financial speculation) and last but not least hope.

In this context it is necessary to realize that we are moving toward a world increasingly dominated by financial civilization. In this context it is necessary to realize that we are moving toward a world increasingly dominated by financial civilization. Civilization which we must admit that currently builds society's most creative minds, which in other times were attracted to art, science or philosophy.

Given all this, it is possible to encounter between those who lead and dominate the financial world (like in any field of social, economic, political), people who

have one goal, above all, their own interest. Interest which in most cases has only one purpose: money

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