(281.)

Gresham's Law: history. Gresham's Law says, in a phrase which has become proverbial, that 'bad money drives out good'. If a one-shilling coin contains less silver than another one-shilling coin, the 'bad' money, the lighter coin, will circulate and the 'good' will go into hoards, so long as enough bad coins exist to make payments. The Law applies to any means of payment. If someone can pay off a debt in overvalued roubles rather than in American dollars, he will. The Law would not apply if the 'bad' money sold at a freely determined discount, as for example it did in the United States during the Free Banking period. It operates only when official exchange rates, legal tender laws, coinage ratios and the like fix the value of two moneys at a price other than what they would trade for in a free market. Classically, it was a persistent difficulty with bimetallic standards. Unless by chance the official rate between the gold and silver exactly matched their relative prices in the market, one or the other would become the effective standard. Sir Thomas Gresham (*c*1519–79), an English businessman, foreign exchange specialist, and financial counsellor to princes, is claimed to have articulated the Law, although the phrase appears only in an Act of 1560 with which Gresham was associated, not in Gresham's own hand. First called 'Gresham's' by H.D. MacLeod in 1858, it is an ancient piece of common sense. In Aristophanes' comedy *The Frogs* (405 BC: ll. 721–6) the chorus brags that 'our sterling pieces, all of pure Athenian mould, ... These we use not: but the worthless, pinchbeck coins of yesterday, vilest die and basest metal, now we always use instead.'

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