Great Britain was officially on a silver standard, with the shilling defined as equal to 86 pure Troy grains of silver, and with silver as so-defined legal tender for all debts (that is, creditors were compelled to accept silver at that rate).

However, Britain also coined gold and maintained a bimetallic standard by fixing the gold guinea, weighing 129.4 grains of gold, as equal in value to a certain weight of silver. In that way, gold became, in effect, legal tender as well. Unfortunately, by establishing bimetallism, Britain became perpetually subject to the evil known as Gresham’s Law, which states that when government compulsorily overvalues one money and undervalues another, the undervalued money will leave the country or disappear into hoards, while the overvalued money will flood into circulation. Hence, the popular catchphrase of Gresham’s Law: «Bad money drives out good.» But the important point to note is that the triumph of «bad» money is the result, not of perverse free-market competition, but of government using the compulsory legal tender power to privilege one money above another.

In seventeenth — and eighteenth-century Britain, the government maintained a mint ratio between gold and silver that consistently overvalued gold and undervalued silver in relation to world market prices, with the resultant disappearance and outflow of full-bodied silver coins, and an influx of gold, and the maintenance in circulation of only eroded and «lightweight» silver coins. Attempts to rectify the fixed bimetallic ratios were always too little and too late.

In the sparsely settled American colonies, money, as it always does, arose in the market as a useful and scarce commodity and began to serve as a general medium of exchange. Thus, beaver fur and wampum were used as money in the north for exchanges with the Indians, and fish and corn also served as money. Rice was used as money in South Carolina, and the most widespread use of commodity money was tobacco, which served as money in Virginia. The pound-of-tobacco was the currency unit in Virginia, with warehouse receipts in tobacco circulating as money backed 100 percent by the tobacco in the warehouse.

While commodity money continued to serve satisfactorily in rural areas, as the colonial economy grew, Americans imported gold and silver coins to serve as monetary media in urban centers and in foreign trade. English coins were imported, but so too were gold and silver coins from other European countries.

Among the gold coins circulating in America were the French guinea, the Portuguese «joe," the Spanish doubloon, and Brazilian coins, while silver coins included French crowns and livres.

It is important to realize that gold and silver are international commodities, and that therefore, when not prohibited by government decree, foreign coins are perfectly capable of serving as standard moneys. There is no need to have a national government monopolize the coinage, and indeed foreign gold and silver coins constituted much of the coinage in the United States until Congress outlawed the use of foreign coins in 1857. Thus, if a free market is allowed to prevail in a country, foreign coins will circulate naturally. Silver and gold coins will tend to be valued in proportion to their respective weights, and the ratio between silver and gold will be set by the market in accordance with their relative supply and demand.