The Ascent of Money: A Financial History of the World
Niall Ferguson. 2008. New York: Penguin Press. ISBN: 978-1-59420-192-9, $16.00 (paper).

Reviewed by John Stapleford, Caesar Rodney Institute

Niall Ferguson is a prolific Scottish born historian of the first order. He is a leading proponent of the counterfactual school of history who never shies from controversy. He has argued that Britain should never have entered World War I (Ferguson, 2000), challenged Paul Krugman and Obama-nomics as nonsensical, and proposed a New New Deal that would replace all major national taxes with a Federal sales tax (Ferguson, 2002).

One area that has been a major focus of Ferguson's historical journalism is the world of finance. Ferguson's seven books on this subject have extensively covered the House of Rothchild, financier Sigmund Warburg, the integrated relationship between money and power (*Ferguson, 2002)*, and the financial history of the world in 358 pages (*The Ascent of Money*).

As with all his books, *The Ascent of Money* is engaging, interesting, and well documented. Behind the catchy chapter titles, Ferguson's discussion progresses from greed to the creation of bond, stock, insurance and property markets, and the recent globalization of those markets. The major unanswered question—one for which no one has an answer—is why in the face of repeated defaults buyers continue to exist for Argentinean debt.

The chapter on greed reviews the basic functions of money (i.e., a medium of exchange, unit of account, store of value), the various materials that have been used for currency, and the reality that monetary expansion (more gold or silver) without increased productivity simply results in inflation. It is acknowledged that the shift to paper currency is a matter of faith. Paper currency facilitated credit markets, which together with the freedom to fail (bankruptcy), an expanding money supply, and fractional reserve banking, fueled economic development. Ferguson goes so far as to assert that poverty has more to do with the lack of financial institutions than their presence.

Following the establishment of banks, Ferguson sees the birth of the bond market as the second great revolution in the ascent of money. Demand was initially driven by kings who, for heaven knows why, wished to wage war. Naturally, kings who lost wars initiated the custom of default on bond debt, especially when the lenders were foreign. Bond demand soared with the Napoleonic wars, the U.S. Civil war, and the two back to back World Wars. The inverse relationship between inflation and bond prices is noted. Also, Ferguson asserts that the shift of investment into stock markets over the past 20 years will reverse itself as an aging population seeks the stability and lower risk of bonds (yes, I have shifted out of stocks), and

government increases deficit spending in the face of the rising dependency ratio.

Next, approximately 400 years ago, came the joint-stock, limited liability company. The most notable of these institutions was the United Dutch Chartered East India Company (the VOC). Much more so than bond markets, stock markets were subject to manipulation and deception, fueled by ever present greed and runaway emotion (market sentiment!). Classic bubbles, including John Law and Enron, are recounted, along with the RCA stock mirage that helped precipitate the 1929 crash. What might one expect from a mechanism that allowed companies and financiers to "make gold out of paper"? Even the brightest minds and the most sophisticated algorithms have been unable to make sense out of this random walk market.

A dedicated insurance market formed in London following the Great Fire of 1666. The first actuarial based life insurance fund was established by some hard drinking Scottish ministers in 1748. Based upon mortality data for ministers and their spouses, the founders calculated the accumulated capital and interest necessary to provide annuities to the widows and children of the ministers of the Church of Scotland. As of 1765, their estimates were off by one pound. Following this came old age pensions, call and buy options, and social welfare programs for those who could not afford to be "hedged."

Until the Industrial Revolution, land was wealth. The aristocracy retained dominance by passing estates down from generation to generation. Property, especially residential and commercial, remains a major source of collateral today. In a world seeking after liquidity, owning property gives creditors security. The appropriate level of exposure for property owners and lenders has varied over time, particularly in the wake of the savings and loan crisis and the securitization of subprime mortgages followed by negative equity. Nevertheless, as recognized by Hernando de Soto, "dead capital" (unleveraged property) retards economic development. One evolving alternative is micro lending as initiated by Muhammad Yunus and the Grameen Bank.

Ferguson examines globalization from the context of his books on the British empire and the American colossus. Safer and more efficient shipping, the invention of the telegraph, the stock ticker, and now the Internet have all facilitated the flow of information regarding international investment opportunities, and reduced the appearance of risk. British money underwrote the railroads in America and ports in China. After a 30 year hiatus following 1930, globalization has soared. Trillions of dollars of paperless transactions occur daily. Hedge funds chase after any competitive advantage, and George Soros becomes "a player." In a world of growing financial complexity, individuals can become rich by simply managing other peoples' money. Financial services become a major industry, with

broker fees being separated from down-side risk. The outcome is obvious.

Ferguson addresses this outcome in his Afterword: "The Descent of Money." Human nature, together with the moral hazards created by broker fees and implicit government bail out guarantees, has reached its logical destination. Financial intermediation must take a breather. Banks are overleveraged. Consumer debt has reached historical levels. Price earnings ratios are retrenching. Yet, asserts Ferguson, new financial instruments will evolve, the financial markets will rise again, and money will once more be on the ascendency.

The book is an enjoyable read. Ferguson's narrative approach provides a continual stream of interesting anecdotes and humorous quotes. For example, centuries ago Jewish moneylenders in Venice did business sitting on benches (*banci*) and were known as *banchieri* (bankers). Since 1959 the mortgage debt outstanding in the U.S. has risen seventy-five fold. The popular joke among real estate agents following the savings and loan crisis was: "the difference between venereal disease and condominiums is that you can get rid of VD."

This is not a serious, technical treatment of the economics of money and finance. But it is great background material for instructors and provides an easy reading broad sweep of the history of the development of finance.

The issue is of special interest to Christian economists as it places the spotlight on the conflicting role of greed in economic growth. Although economists assert that "self-interest" encompasses everything from missionaries (other regardedness) to greed, fallen human nature most frequently leads to self-interest being expressed as greed. Throw in money, the apparition of security in this world, and depravity can run rampant. The financial capital so necessary for investment and growth easily leads to immorality among sellers and buyers of that capital. And, as noted by John Tiemstra (2009): "No system of rules, institutions, or policies will guarantee that individuals will always do the right thing" (p. 24).

References

Ferguson, N. (2000). *The pity of war: Explaining World War I*. New York: Basic Books.

Ferguson, N. (2002). *The cash nexus: Money and power in the modern world, 1700-2000*. New York: Basic Books.

Tiemstra, J. P. (2009). Notes from the revolution: Principles of a new economics. *Faith & Economics, 54*, 19-29. ■