

## BOOK REVIEWS

### **The Ascent of Money: A Financial History of the World**

Niall Ferguson

New York: Penguin Press, 2008, 432 pp.

The historian Niall Ferguson can never be accused of lacking boldness. Over the past decade he has argued, among other things, that Europe would have been better off had Great Britain stayed out of World War I and allowed Germany to win, that the British empire provided a global public good that benefited the world economy, and that the United States should follow suit today by more actively embracing the demands of empire. He has also been championing the burgeoning field of counterfactual history, a development that many historians consider controversial given its speculative nature.

Given this track record, it is not surprising that in his latest book, *The Ascent of Money*, Ferguson makes another provocative claim: The main driving force of human history is the development and use of finance. This point is clear from the start. On the book jacket, it is asserted that “financial history [is] the essential backstory behind all history,” while in the introduction Ferguson writes, “Financial innovation has been an indispensable factor in man’s advance.... The evolution of credit and debt was as important as any technological innovation in the rise of civilization, from Babylon to present-day Hong Kong.”

This thesis leads Ferguson to examine the history of money, banking, bond markets, stock markets, insurance, financial derivatives, and the rise of leverage and property ownership by households. Hardly a dry writer, Ferguson makes his case with numerous and

often entertaining stories. For example, he shows that the success of the Italian Renaissance depended on the advances in banking made by Italian bankers like the Medici family and that the defeat of Napoleon at Waterloo was as much the work of Nathan Rothschild as it was of the Duke of Wellington. Similarly, he notes that the Dutch Republic's successful revolt against the Habsburg Empire was because it had a modern stock market, while the Confederacy in the American Civil War failed because it lacked support from the bond market. Ferguson also explains that the origins of the French Revolution lie in a stock market bubble while the relative decline of China from 1700 to 1950 can be traced to its lack of financial innovation. These and other stories show, Ferguson contends, that "behind each great historical phenomenon there lies a financial secret."

Ferguson's view of history is obviously controversial. Examples notwithstanding, there are many other important historical developments that are not covered in the book. What about the defeat of the Spanish Armada at the naval battle of Gravelines? Where is the hidden financial story here? Or, why did the Industrial Revolution begin in Great Britain and not on the European continent? Was it because of finance? These and other omitted events may well be explained by finance, but the reader is left wondering. Ferguson would have made a much stronger case for the importance of finance on history had he covered more important historical developments in his book.

Ferguson also would have made a stronger case had he spent more time explaining how his view of history relates to views of others who have looked at the issues of long-run economic growth and the philosophy of history. Most observers who have looked at these issues would probably agree that the development and use of finance has played an important role, but it is unlikely many of them would see it as the main force driving human history. It is more likely that they would point to institutions such as property rights and the rule of law as key to understanding human progress and to some extent the trajectory of human history. From this perspective, where would finance and its influence be had these institutions been absent? It is hard to imagine, for example, that bond and stock markets would have emerged without there first being some property rights and the rule of law. It is worth noting, though, that Ferguson does mention these institutions in the book as being important to successful inter-

national monetary systems, but he does not portray them as an important force in shaping history. That role is left solely for the development and use of finance. What is interesting about Ferguson's view in this book is that it is quite different from the more nuanced view he adopted in his earlier book, *The Cash Nexus*, where he argued that economics is just one of several factors that can cause political change and vice versa. It would be interesting to learn why the author changed his view.

A secondary theme running through this book is that even though financial markets have enhanced human welfare they remain susceptible to wide swings. Ferguson notes that Knightian uncertainty, irrational human behavior, and ongoing innovation in finance will always be with financial markets. Some international monetary systems historically have coped better with these challenges than others have. Consistent with his earlier work, he points to the gold standard under the British Empire as an example of just such an international monetary system. He notes that the success of this system was more than just imposing the gold standard; it offered a set of institutions that inspired confidence and predictability in markets throughout the empire. Specifically, he cites the following practices: the gold standard, free trade, balanced budgets, rule of law, and low levels of corruption. These institutions made finance in the British Empire relatively stable and productive in its uses.

The British international monetary system can be contrasted with what he calls "Chimerica" in the book. Chimerica is a clever reference to the de facto financial and monetary arrangement between China and America where the former provides vendor financing to the latter and does so, in part, by pegging its currency to the dollar. Ferguson goes through the reasons why the global economic imbalances created from this international monetary arrangement—called "Bretton Woods II" by some observers—are not sustainable and are conducive to financial crises. Although not stated explicitly in the book, a key implication from this discussion is that in order for an international monetary system to be consistent with financial stability it should meet the criteria for an optimal currency area (OCA)—that is, the characteristics that would ideally describe regions wishing to create or join a currency union. They include a high level of trade integration, similar business cycles, mobility of labor and capital, flexible prices, and fiscal transfers among the regions of the currency

union. The British Empire met the OCA criteria far better than does Chimerica. It is not surprising to Ferguson, therefore, that there is currently a severe economic crisis in the world that stemmed from financial instability in Chimerica.

In the end, *The Ascent of Money* provides a good account of how finance can be important in shaping history and does so in a lively manner. There are plenty of fresh insights, interesting stories, and clever historical connections made by the author that makes the book an enjoyable read. Contrary to the claims of the author, though, the book does not make a convincing case that the development and use of finance is the driving force of human history.

David Beckworth  
Texas State University, San Marcos

### **Small Change: Money, Political Parties, and Campaign Finance Reform**

Raymond J. La Raja

Ann Arbor: University of Michigan Press, 2008, 304 pp.

Ray La Raja has written one of the most provocative campaign finance books in recent memory. *Small Change* causes the reader to struggle with fundamental “truths” about money and politics, to revisit old questions, and to ask new ones. La Raja directly challenges prevailing scholarship—and popular wisdom—concerning the purposes and origins of campaign finance regulation and its effect on political parties. The dual focus on campaign finance *and* American political parties is arguably the book’s greatest strength. (La Raja generally uses the term “regulation” broadly, although his focus is on major changes in law rather than on regulations, such as those issued by the Federal Election Commission. For expediency, this review also uses the term “regulation” to encompass both federal campaign finance law and agency regulations.)

In *Small Change*, La Raja contends that neither campaign finance regulation nor parties can be studied in isolation. Rather, he argues, the two are inextricably linked. For La Raja, a century of campaign finance regulation has shaped every aspect of political parties, particularly organizationally and financially. The relationship La Raja describes is, essentially, a symbiotic one: regulation shapes parties,