

A financial history of the world

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One way to make sense of the present financial chaos is to look back at the past

THE typical career of a Wall Street banker lasts about a quarter of a century, enough to span just one big financial crisis. As Niall Ferguson explains in his new book, “The Ascent of Money”, which will be published next month, today’s senior financiers would have started out in 1983, fully ten years after oil and gold prices first began the surge that had ruined the previous generation of money men. That, he concludes, is a “powerful justification for the study of financial history.”

Mr Ferguson is right. The world needs a book that puts today’s crisis into context. It is too late now to warn investors about expensive houses and financiers about cheap credit. But perhaps the past can help make sense of the wreckage of banks, brokers and hedge funds that litters the markets. Looking back may help suggest what to do next. And when the crisis is over and it is time for the great reckoning, the lessons of history should inform the arguments about what must change.

This rushed, uneven book, by a British-born Harvard University professor who made his name a decade ago with a history of the Rothschild banking dynasty, will contribute less than expected to that debate. It has strengths, including a tidy account of the run-up in housing markets and of the symbiotic rivalry between America and China. But in the earlier chapters—the history, oddly enough, where you would expect Mr Ferguson’s ambitions for his subject to quicken his judgments—the words rarely come to life, either as a source of ideas or as narrative.

Perhaps the book was bound to be flawed, given the pace with which today’s crisis has torn through the markets. As the debacle has unfolded, from a housing crisis, to a credit bust, a bank run and what now looks ominously like a global recession, each episode has posed different questions. Finishing his manuscript in May this year, Mr Ferguson must have been dizzy with the unravelling of certainties. And yet, he is at his strongest in his reading of the news. His story of what is happening today shows prescience, even if it is necessarily incomplete.



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It may be that Mr Ferguson was too distracted by the present to pay enough attention to the past. Claiming to be “A Financial History of the World”, the book dutifully dabbles in societies, such as the Inca, who did not see gold and silver as money, and in the pre-Christian Mesopotamian clay tablets that served as credit notes for commodities. He traces the transformation of *banchieri*, named for the benches where money was changed, into the families that dominated the political and cultural life of Renaissance Italy and from there into modern bankers. He explains how the bond market had its origins in the state’s need for money to finance war. He describes how manias have repeatedly engulfed greedy investors over the centuries—concentrating on John Law, whose schemes ruined 18th-century France. And he rehearses the story of financial risk from its origins in Enlightenment Scotland.

Yet the reader is left wondering quite who the book is aimed at. The finance specialist will not find enough here to begin to compete with the work of Charles Kindleberger, an economic historian. And the reader who wants to know how finance is interwoven with general history would do better to turn to Jeffrey Frieden’s excellent 2006 work, “Global Capitalism”.

Mr Ferguson may seem to be speaking to a general audience, given that he has taken his title from “The Ascent of Man”, Jacob Bronowski’s book and television series of a quarter-century ago which analysed the contribution of science to civilisation. Yet these readers will be baffled by passages that breezily toss around ideas like “sterilisation”—the issue of bonds by a government to mop up the inflation-inducing money it prints to buy foreign currency. And they may be put off by Mr Ferguson’s attempt to be jolly. After two and half pages on the mathematics of bond yields, for example, comes this quip: “So how did this ‘Mr Bond’ become so much more powerful than the Mr Bond created by Ian Fleming? Why, indeed, do both kinds of bond have a licence to kill?”

Of far greater interest is Mr Ferguson’s general theory, which does not emerge until the end of the book. He thinks that finance evolves through natural selection. Although the professor cautions against the sort of Darwinism that sees evolution as progress, he believes that new sorts of finance are constantly coming into being as the environment changes. The sequence of creation, selection and destruction is what has generated many of the financial techniques that modern economies depend on.



This leads Mr Ferguson to make two timely points. One is to remember that evolution depends on extinction as well as creation. You have to allow ill-adapted techniques to fail if you are going to get something new. As the world rushes around rescuing every bank in sight, it is a reminder that the guarantor-state will later have to administer painful medicine.

The other is to observe the wonder of what financial evolution has created. Just now it is only natural to think of the “roller-coaster ride of ups and downs, bubbles and busts, manias and panics, shocks and crashes.” But Mr Ferguson sees something else too: “From ancient Mesopotamia to present-day China...the ascent of money has been one of the driving forces behind human progress: a complex process of innovation, intermediation and integration that has been as vital as the advance of science or the spread of law in mankind’s escape from the drudgery of subsistence agriculture and the misery of the Malthusian trap.” Amid this financial bust, cleave to that.

A financial history of the world: Exercises

General understanding

A Read the article quickly and answer the questions.

1. What is the main purpose of this article?
 - a To give a brief history of the financial world.
 - b To argue that we should study history in order to understand the current financial crisis.
 - c To review a new book about financial history.
2. What is the title of the book?
 - a The Ascent of Money
 - b A Financial History of the World
 - c Global Capitalism
3. Does the author of the article like the book?
 - a The author thinks the book helps to explain the current crisis.
 - b The author dislikes the book but thinks many people will find it useful.
 - c The author thinks the book is disappointing.



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B Read the article more carefully and tick the true statements below. Justify your answers with reference to the article.

1. The typical career of a Wall Street Bankers is about 25 years.
2. There is usually a big financial crisis every 25 years.
3. "The Ascent of Money" is a new book by Niall Ferguson.
4. It will be published next month.
5. Niall Ferguson thinks that today's Wall Street bankers started to work in 1983.
6. Oil and gold prices began to increase rapidly in 1983.
7. These increases led to a financial crisis.
8. Neill Ferguson believes that all bankers should study financial history.
9. The author of this article does not agree.
10. The author of the article thinks the world needs to understand the current crisis in its historical context.
11. The author thinks that studying the past can help us to understand the present.
12. The author thinks that history should help us to plan for the future.
13. Niall Ferguson was born in the USA.
14. He worked as a professor at Harvard University.
15. His next book will be about the history of the Rothschild family.
16. The author thinks the first chapters of the book are rather boring.
17. The book describes the early history of money, credit and banking.
18. The Inca used gold and silver as money.
19. In Mesopotamia clay tablets were used as letters of credit.
20. Banks got their name from the '*banchieri*', or benches where money changers used to sit.
21. Governments raised money for wars by selling government bonds.
22. The author of this review thinks the book would be useful for finance specialists.
23. In "The Ascent of Man", Jacob Bronowski showed how science had advanced human civilisation.
24. The author thinks the last part of the book is most interesting.
25. Niall Ferguson believes that financial systems are constantly improving.
26. Niall Ferguson thinks that bad financial systems must be allowed to fail if we are to create better financial systems.



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Vocabulary

C Choose from the words in brackets to complete these sentences from the text. Try not to refer back to the text.

1. It is too late to warn _____ about expensive houses and _____ about cheap credit.
[financiers | bankers | investors | brokers]
2. But in the earlier chapters -- the _____, oddly enough, where you would expect Mr Ferguson's _____ for his subject to quicken his _____ -- the words rarely come to life, either as a source of _____ or as a _____.
[story | history | narrative | ambitions | opinions, | judgments | ideas]
3. As the _____ has unfolded, from housing _____, to a credit _____, a bank _____ and what looks ominously like a global _____, each episode has posed different questions.
[recession | crisis | bust | crunch | run | debacle]
4. He thinks that finance _____ through natural _____.
[grows | develops | change | evolves | choice | chance | selection]
5. One is to remember that _____ depends on _____ as well as _____.
[extinction | creation | selection | destruction | evolution]



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D Complete the sentences below with words from the box. Use your dictionary to help you.

drudgery	innovation	mania	panic	timely
interwoven	baffled	dabbles	flawed	wreckage

1. Buy a Laundromatic washing machine and say goodbye to the ____ of the weekly wash!
2. Most people were _____ by Einstein's theory of relativity.
3. There was _____ when the people saw the tsunami approaching the coast.
4. She works as an accountant but she also _____ in restoring antiques.
5. Kevin was able to pay the bill, thanks to the _____ arrival of a cheque from his uncle.
6. The cloth is warm because it is made from cotton _____ with wool.
7. Everyone could see that the manager's explanation was _____ and made no sense.
8. In thirty years from now, today's youth will regret the current _____ for tattoos.
9. The road was blocked by the _____ of crashed cars.
10. The steam locomotive was a great _____ in the history of transport.

Discussion

E Henry Ford described history as "pretty much bunk." Others believe that a study of history can inform our decisions about the future. What is your opinion? Try to justify your opinions with personal experiences.



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Teacher's Notes and Answers

This review is structurally complex as well as being very rich in vocabulary. Learners will need even to achieve a fairly superficial level of comprehension. However, it contains a wealth of ideas. If you can guide students towards a more profound level of comprehension, their work will be rewarded by fresh and interesting discoveries. It is an example of the concise, deeply thought writing which is often found in *The Economist*.

A 1c, 2a, 3c. The reviewer clearly thinks the book has been written quickly and carelessly. The reviewer says the book offers nothing new to finance specialists. There are better books for those readers wanting to learn about how finance is interwoven with general history. The reviewer also thinks the explanations are not clear enough for the general reader. We can also see that the reviewer is annoyed by the author's attempts to be humorous. However, the reviewer clearly agrees with the author's belief that financial systems are moulded by economic circumstances and that the current international attempt to support failing financial institutions is wrong.

B The numbers in brackets refer to line numbers in the text.

1✓(6-7), 2✓(6-7), 3✓(7-8), 4✓(9), 5✓(9), 6✗(10), 7✓(10-11), 8✓(11-12), 9✗(13), 10✓(13-14), 11✓(15-16), 12✓(18-19), 13✗(21), 14✓(21), 15✗(22), 16✓(25-28), 17✓(39-49), 18✗(39-40), 19✓(40-41), 20✓(42-43), 21✓(44-46), 22✗(50-52), 23✓(56-58), 24✓(66-67), 25✗(68-69), 26✓(73-75).

C 1 investors, financiers, 2 history, ambitions, judgments, ideas, narrative, 3 debacle, crisis, bust, run, recession, 4 evolves, selection, 5 evolution, extinction, creation.

D 1 drudgery, 2 baffled, 3 panic, 4 dabbles, 5 timely, 6 interwoven, 7 flawed, 8 mania, 9 wreckage, 10 innovation.

E Open answers

