

Book Review

The Ascent of Money: A Financial History of the World. Niall Ferguson. 2008 The Penguin Press. 442: pp.

Niall Ferguson is one of the new breed of historians in England with a non-conventional approach to the subject. He has written prolifically; The Cash Nexus, Colossus and the War of the World being among the more widely read of his books. In his approach to his subject Niall Ferguson has changed the way in which we view history and historical events. In The Pity of War, Niall Ferguson's main thesis was that Britain should not have entered World War I because by the time the fighting was over, the British empire had been substantially weakened. Had Britain not entered the conflict, the Empire would have still been there. In The Cash Nexus (2001), Ferguson had this to say of the United States. 'the leaders of the one state with the economic resources to make the world a better place lack the guts to do it'. This latest book, The Ascent of Money is a continuation of his intellectual prowess in analyzing the role of finance in the rise and fall of the great powers. The author gives plenty of examples from history to support his arguments.

According to the author "behind each great historical phenomenon there lies a financial secret". He elaborates this statement by highlighting the role played by the Rothschilds in bringing about the defeat of Napoleon at the battle of Waterloo. This was achieved by amassing gold for Britain as the Rothschilds were considered to be among the wealthiest bankers on the European continent in the 19th century. Another example highlighted by Ferguson is the case of Spain in the 16th and 17th centuries where gold and precious metal flowed into that country but was unable to capitalize on this due to a weak and inefficient banking system. On the other hand, both the British and Dutch empires progressed from strength to strength because of their financial systems – notably a strong and rigorous banking system.

An example of financial indiscipline or weakness cited by Ferguson relate to the breakdown of the financial system in France that precluded the French Revolution in the 18th century and the subsequent negative impact on the development of financial institutions in that country. As Ferguson states the outcome of this breakdown “fatally set back Frances’ financial” development, putting Frenchmen off paper money and stock markets for generation”. Another example given by the author is that of Germany prior and during World War I when the country, according to Ferguson “did not have access to the international bond market” thereby limiting its access to financial capital.

Having narrated a brief history of financial soundness as well as unsoundness, the author skips to the present and, in particular, the soundness or otherwise of American finance. The question is will America follow the other great powers into oblivion? The financial crisis that began in 2007 could well be the beginning of the end.

Ferguson analyses the American – Chinese link with this in mind. To him what is most disturbing is the high budget and trade deficits of the U.S. On the other hand, the Chinese have massive surpluses. Much of the Chinese surplus has found its way back to the US as investment in different economic activities, which has further encouraged American consumer spending. This inflow of dollars according to Ben Bernanke, head of the Federal Reserve “was the underlying reason why the US mortgage market was so awash with cash in 2006 that you could get a 100 percent mortgage with no income, no jobs or assets.”

A possible way out of the deficit crisis is to apply simple economics of reducing spending which would ultimately lead to a reduction in the budget as well as trade deficits. Another strategy would be to regulate the international monetary system, in particular, the operation of the banking systems as well as stock markets across the globe. A signaling system, when set in place, could give warning of any threat to the system. Thus, if the U.S. is able to bring under control both its budget and trade deficits

financial soundness can be re-established with positive outcomes for the world economy as well.

Niall Ferguson has written a very thought-provoking book. It is well illustrated to support his narrative. The language of the book is clear and incisive as well as a pleasure to read. The research for the book is well supported by an extensive bibliography, as it traces the development of credit and debt from the beginnings of recorded history. The book is a recommended reading for economic historians and graduate students of economics, particularly for those who specialize in banking and finance

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