On the Money Trail

DEIRDRE MCCLOSKEY

THE CASH NEXUS: MONEY AND POWER IN THE MODERN WORLD, 1700–2000

Niall Ferguson, a startlingly young professor of the history of politics and finance at Oxford, is a force of nature, or at any rate a force of book marketing in British (and now world) historical circles. His debut was a mere six years ago, yet he’s already produced a heavy tome on the Great War (The Pity of War, an international best-seller); two thick books on the Rothschilds (also best-sellers); an edited collection of historical counterfactuals, or what-if scenarios (another best-seller); a monograph on Hamburg business and the politics of inflation before Hitler; and now a volume on all these subjects combined.

The Cash Nexus reads like a splendid set of lectures to bright undergraduates about, well, Money and Power in the Modern World, 1700–2000, down to the well-organized university lecturer’s trademark teaser at the end of each lecture/chapter. An attentive class would emerge sophisticated about many things well worth being sophisticated about: the wages of war since 1700, the size of governments, the workings of the money market, the handling of public debt. And the quasi-conservative themes they would find themselves hanging it all on are these: that the economy does not determine everything—the “cash nexus” is important, but not simple or mechanical or inevitable, despite the current widespread assumption that market forces trump all others; and that out there it’s still a dangerous world, whether money or missiles are on the line—a world that requires a Top Nation to keep the peace.

“In the beginning was war,” Ferguson declares at the outset. He goes on to present in fascinating detail the statistics of deadly quarrels, tracing financial history through the annals of warfare. Economically motivated or not, wars have always required economic ingenuity, compelling rulers to develop efficient ways of collecting monies from their subjects. As the historian of the Rothschilds is well placed to demonstrate, fluctuations in the cost of war “have been the driving force of financial innovation.” Under late capitalism, however, contrary to the more vulgar anti-capitalist notions that link prosperity with bloodshed, the share of war in governmental expenditure has not risen. It has declined, constituting a virtual “demineralization of the West” and “the transformation of the warfare state into the welfare state.”

Are taxes, then, whether collected to fight wars or to finance a social safety net, the nexus between the economy and the rest of history? No, not reliably. An extensive taxation system has often been supposed to presage a strong democracy, but as Ferguson notes, it only sometimes led to democratic representation—most famously in Britain and America, but not in places farther east and south, in which the bureaucracy of an autocratic Prussia could increasingly perform the revenue-gathering trick. And yet early-eighteenth-century Britain had three times as many tax collectors per capita as did France, and nearly thirty times as many as Prussia. Here, at least, the beginnings of democracy and taxes seem related. Having seized an early economic advantage, nineteenth-century Britain emerges as the protagonist, its financial innovations widely imitated around the world.

Other than taxes or press gangs, borrowing was the way governments could get their gun

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money, and Ferguson is an entrancing guide to this and other mysteries of finance. Unlike most historians—even historians of the economy, even historians of bonds and inflations—he has troubled to read the economists, and explains them lucidly and accurately to the rest of us. For example: a prudent government issuing bonds will avoid default, keep inflation low, and keep its needs modest enough that growth in the economy (and therefore in receipts from taxes) will make repayments easy; otherwise the market will punish it with high interest rates. Ferguson shows how imprudent governments from royalist France to socialist Russia have been ruined by these links between “past misdeeds and present interest rates,” facing revolution on the bourse or in the streets.

Even a prudent government, however, cannot lay down the future. The cash nexus is severed, Ferguson notes again, since unforeseeable events as much as economic inevitabilities run the show. Ferguson is here expanding a theme in his earlier work on war and “counterfactual” histories. The British did not have to go to the aid of France in 1914, he has argued; the Rothschilds did not have to be so frightfully clever. Yet they did, and they were, and history veered off the tracks of class and interest and money. Even when the debt was democratized and turned to social purposes, Ferguson argues, politics was not so simple as voting one’s pocketbook. The Left and Right concur with each other on the contrary assertion, that the cash nexus is unbreakable. The Golden Rule applies: those who have gold, rule. In the first half of his course of lectures Ferguson replies, Not so fast.

The early parts of Ferguson’s book, then, are part of a reaction to the economistic reduction of history to money. Economists—those “worldly philosophers,” as the late Robert Heilbroner called them—study the virtue of fiscal Prudence in the conduct of world affairs. Adam Smith at least put Prudence in a context with the other pagan and Christian virtues, but his followers have not. Marxist or bourgeois, economists over the past couple of centuries have insisted that Prudence (or the lack of it) explains all. Want to understand the history of the past three centuries in the West? Follow the money, say the Left and Right. Not so fast, Ferguson says again (and I agree): what of Courage and Cowardice, Love and Hate?

Late in his book Ferguson turns pessimistic, and with this later theme I have less sympathy. His is not exactly the millennial pessimism of George Soros, say, or Ravi Batra—whose The Great Depression of 1990, written in 1987, I bought on the remainder table in 1993. Ferguson does not believe the sky is falling, that we are about to be impoverished. But something is worrying him, though it’s never quite clear what. He admits, for example, that democracy seems to have progressed recently, moving into a phase that has been termed the Third Wave. But the long trends, he argues, are nothing like so uniform as Tocqueville, for example, would have expected: “It is only legitimate to speak of a long-term progressive evolution of human political institutions in the direction of liberal democracy if by ‘long-term’ we mean 26 years.” Do democracy and economic progress go together, as optimists would say? The English-speaking case seems good—except that it was built on cousin wars. Prosperity and democracy, Ferguson concludes, are not mutually causative. On the contrary, it is law and religion that determine both how much we can earn and how freely we are allowed to speak and vote. Nationalism was not the cause of nations—great power politics was. Ethnic conflict ensued. International organizations intended to mediate ethnic conflict are small and weak.

One remains in the dark as to why recent developments justify pessimism in the long term. A last and least satisfying chapter called “Understretch: The Limits of Economic Power” asks: “Why is the United States so powerful? Why is the United States not more powerful?” The danger Ferguson discerns is not (as Paul Kennedy argued in an earlier and opposite Chicken Little tale) the overstretching of power by rich countries—once Britain, now the United States. Now the danger is understretching. The sky is not falling; the earth is exploding disastrously.

What is clear is that Ferguson wants the United States to do more. Against most non-Marxist scholars who have considered the issue, he argues that the Empire was a jolly good thing for the British economy once upon a time, and that British leadership in the nine-
teenth century was good for peace. Though lit-
tle in the earlier chapters justifies it, the book’s
conclusion is: Come on, you Yanks. (One recalls
The Economist during Vietnam, pouring petrol
on the flames.) “The British experience of stra-
etic vulnerability through understretch” is rel-
evant, Ferguson avers, to the United States to-
day. “Far from retreating like some giant snail
behind an electronic shell [that is, the Strategic
Defense Initiative, Star Wars], the US should be
devoting a larger percentage of its vast re-
sources to making the world safe for capitalism
and democracy. This book has tried to show
that these are not naturally occurring, but re-
quire strong international foundations of law
and order.” Law and religion, remember, not
freedoms, made us rich, Ferguson’s is an impe-
rialism worthy of Kipling.

Ferguson simply cannot bear the laissez-faire
optimism of a book like Thomas Friedman’s re-
cent The Lexus and the Olive Tree. The Cash Nexus
is an extended complaint against a sunny “lib-
eral theory,” the view that things are getting bet-
ter and better on their own, with little help
from deep thinkers at the National War College
or the London School of Economics. Says our
Ferguson, with increasing fervor and diminishing
evidence as the book hustles to its end: You
say the polity and the economy improve to-
gether? What optimistic dream have you been
living for the past three centuries?

But optimists like Friedman (Thomas, or for
that matter Milton) have been right. In 1830
Macaulay—another historian wunderkind, but
with a cooler eye—taunted his own generation’s
pessimists:

We cannot absolutely prove that those are in
error who tell us that society has reached a
turning point, that we have seen our best
days. But so said all who came before us, and
with just as much apparent reason. . . . On
what principle is it that, when we see nothing
but improvement behind us, we are to expect
nothing but deterioration before us?

To which Ferguson replies, again: Who says
we see nothing but improvement behind us, es-
specially since America has dropped the reins
once so brilliantly held by Great Britain?

I do, and so do most economists. Surpris-
ingly, for someone fluent in economic matters,
politics, as Thomas Friedman puts it, of quarreling over the ownership of an ancient olive tree instead of cooperating internationally to make soybeans or a Lexus car).

Britain, the first industrial nation and the champion of free trade, went from $1,800 in per capita income in 1820 to $3,300 in 1870, the figure nearly doubling despite a population explosion—and during the half century in which the European avant-garde, with Marx and Engels, turned against free markets, Now Britain wobbles upward in income level along-side other advanced industrial countries—excepting the United States, that continent-wide free-trade zone, which persists at 30 percent above the rest. So much for economic “failure” among the English-speaking leaders of industrialization. Japan in 1870 was roughly at the present-day Bangladeshi level of income per head; by 1994 it had attained U.S. income levels of ten years before. It was a convergence through imitation, saving, education, work—which its former colony South Korea went on to imitate. Korea’s income in 1952 was a desperate $860 in 1990 dollars. Now the capitalist part of it earns $10,000 per capita.

Contrary to Ferguson’s elusive pessimism, there is no reason why India cannot in five or ten decades achieve an American standard of living. China is doing it. The twenty-first century can become a grand alternative to the just-concluded century of mass slaughter in the name of nationalism and socialism. We see people voting with their feet to escape from some village elder’s idea of how to live, or some arts graduate’s idea of protecting primitive folkways. For myself I think it unlikely that governments can stop globalization. For which great thanks unto the Lord.

So too Macaulay:

If we were to prophesy [now in 1830] that in the year 1930 a population of fifty million [it proved to be only a little less], better fed, clad, and lodged than the English of our time [by a factor of about six or seven by 1930], will cover these islands . . . that machines constructed on principles yet undiscovered will be in every house, many people would think us insane.

Insanely optimistic, but correct.

The Scholar as Hero

PEIRESC’S EUROPE: LEARNING AND VIRTUE IN THE SEVENTEENTH CENTURY

By Peter N. Miller. Yale University Press. $40.

Reviewed by TAMARA GRIFFS

No one who has read Middlemarch is apt to forget George Eliot’s portrait of the learned Mr. Casaubon, that “rat of erudition,” as she put it. Eliot created the perfect antithesis of the Romantic ideal in this phlegmatic cleric who arranges his documents in pigeonholes and turns his passionate wife into an amanuensis. Not only is Casaubon’s immense research project, The Key to All Mythologies, obsolete as a piece of scholarship, but its encyclopedic ambitions also reflect his impoverished imagination: he prefers an alphabetical catalog to the inspired mess of moral life. Doomed to a series of unhappy antitheses, he is “scholarly and uninspired, ambitious and timid, scrupulous and dim-sighted.” Added to his moral failings are unpleasant social habits. At dinner, Casaubon scrapes his soup spoon against the bowl and blinks before he speaks.

By the nineteenth century, the independent scholar-collector was seen as the personification of loneliness and irrelevance. Even before the scholarship of German universities rendered his work out of date, “antiquary” had become synonymous with the mop or study of dead things. If we push back into the early decades of the seventeenth century, however, we find that the antiquary was still a vital figure, eliciting respect rather than sh humor. In the fragile peace after the wars of religion, he kept pace with the giants of the New Science, perfected the art of conversation, and provided crucial evidence to serve the political needs of his day. Not only was he once useful, but he was sociable as well. Aristotle wrote, “A lack of converse spells the end of friendship,” and seventeenth-

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