

*The Ascent of Money—
A Financial History of
the World*

by Niall Ferguson

Penguin

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Niall Ferguson—author of *Empire* and *Colossus*—has another riveting read in his latest book, *Ascent of Money—A Financial History of the World*. It's hard not to imagine, however improbable it may be, that Ferguson timed the release of his book to coincide with the global financial crisis, thus guaranteeing huge book sales. The book is extremely well timed to take advantage of our bewilderment in the face of a worldwide financial crisis that no one seems to have predicted or has the foggiest idea how to rectify.

Ferguson's book attempts to trace the origins and development of modern capitalism at a time when the global economy seems increasingly incomprehensible even to the experts in the finance sector who analyse the markets daily. In tracing the economic development of the modern financial institutions we take for granted, Ferguson also hopes to educate his readers about financial management and the importance of money.

This historical aspect of the book is of special interest for those not particularly knowledgeable about the institutions of contemporary global finance. Ferguson focuses on the origins of modern capitalist institutions in the Italian Renaissance, including the genesis of the bond market in fifteenth-century Florence, the rise of hedge funds, and the recognisably modern concepts of banking in the Italian city-states of that era. Ferguson goes on to reveal the shadow history of the West—the

hidden financial hand behind so much of the development of Western political and social institutions.

Tracing the economic developments behind significant events such as the French Revolution, Ferguson shows how we downplay the financial influences on Western history and society at our peril. Ignoring the economic realities of Western history leaves us with only half the story and undermines our ability to comprehend much that drives human behaviour. Lacking an understanding of the hidden economic hand in history is not our only failure—Ferguson also laments the failure of modern people to understand the basics of their economic world.

It is a well-established fact, according to Ferguson, that a substantial portion of the Western public is woefully ignorant of financial matters. Ferguson quotes a 2007 survey that shows four in 10 American credit card holders don't repay the full amount every month—despite the high interest rates charged by credit card companies—and almost a third don't know the interest rates on their credit card. A 2008 survey found that two-thirds of Americans don't know how compound interest works. And so on. Suddenly the collapse of the US subprime mortgage market seems more explicable.

Surveys conducted in other parts of the English-speaking world reveal similar levels of financial ignorance. Ferguson argues that in an increasingly complex, globalised economy that encourages individual initiative and entrepreneurial drive, it is imperative that the public be well informed about the basics of finance.

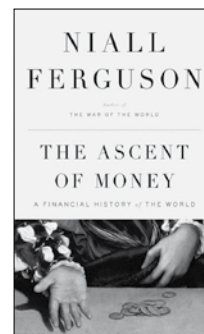
But does anyone really understand the workings of the contemporary global economy?

Using the Darwinian theory of natural selection, Ferguson describes the free market and capitalist financial institutions as constantly evolving in new and creative ways. This evolution of financial institutions is beyond the capacity of any individual or group of individuals to understand, let alone control. It arises from the constant interaction of tens of millions of individuals and companies in the global economy every day, with new commercial institutions arising to meet the needs of buyers and sellers.

Alan Greenspan no less—the architect of US financial developments from the late 1980s until his retirement only a few years ago—admitted ignorance of how the global financial markets really worked. Lucky for him, he didn't mention this when he was Chairman of the US Federal Reserve! The complexity of the contemporary global

financial market is such that it is becoming increasingly difficult to predict how the market will evolve in a year's time, let alone in the decades ahead. What does seem certain is that our economic future will be full of surprises and will likely defy the expectations and predictions of the experts.

One of the most interesting developments in last few years that Ferguson only touches on briefly is the re-emergence of various forms of state capitalism. Just when it seemed the state was out and the free market was supreme, the nation-state has made something of a comeback. This is most evident in the resurgence of the Russian state in recent years and the growing



power of the Chinese corporate state. Ignoring Adam Smith and taking a leaf out of Friedrich List's national economic theories, the Russian and Chinese economies combine the strengths of the market economy with a nationalist, state-directed developmental economy designed to overcome the volatility of Western economies and build what the Chinese call the 'comprehensive national power' of the state.

The Chinese state capitalist system is reaping the benefits of the global financial crisis. Being largely insulated from the effects of the economic downturn, China is using its huge savings reserves to fund recovery in countries like Australia, the United States, and other Western nations. China is also calling for a fundamental reform of the global financial system and blames the United States for much of the current downturn. China is now the world's greatest creditor nation and the United States is the world's largest debtor nation. Some observers even see in the current economic crisis the ultimate decline of US power and the rise of China as a future economic—and possibly political and military—superpower. What seems certain is that the economic power of United States has been badly shaken, and continued US global dominance over the next few decades is far from certain.

Ferguson writes about the rise of what he calls 'Chimerica'—the combined economy of China and the United States—where Chinese workers make the products that US consumers buy. This mutual economic reliance is often touted as a triumph for US diplomacy, locking the authoritarian Chinese state into the global economy and therefore the Western order of human rights and democracy. But this wouldn't be the first time that Westerners thought the free market and liberal democratic

norms would avert Great Power rivalry and violent world conflict. Many thought the economic links between Great Britain and Imperial Germany in the early 1900s would make war between the Great Powers unthinkable—and we all know how that ended in 1914.

Ferguson's book, which is not overly technical and can be easily read by non-economists, is a fascinating tour of the global economic horizon, where we've come from, and where we might be going.

Reviewed by Martin Sheehan

The Accidental Guerrilla: Fighting Small Wars in the Midst of a Big One

by David Kilcullen

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In his book *The Accidental Guerrilla*, David Kilcullen takes us on a journey through Indonesia, East Timor, Iraq, and Afghanistan, with a preview of Pakistan. He tells us that Afghanistan and Pakistan are one fight. He knows the ground and the people. He listens to what our enemies are saying. We need to listen to what he is saying.

His book should be read by all seeking to understand the nature of the current conflict and the shape of future war. Kilcullen has a comprehensive understanding of global and regional events and their historical, social, anthropological, cultural, and economic context and an ability to relate them to current conflict. He patiently explains that we are not fighting one war but a hybrid mix of terrorists, nationalists, local villagers, and those seeking to

protect their culture and way of life. Our challenge is to see the complexity of the environment, disaggregate our response, and deal with the root causes of each conflict.

Like most of his generation of Australian Army officers Kilcullen joined an army at peace. He and his compatriots trained for one type of war and have found themselves in another. He has an inquiring mind and a willingness to challenge old ideas and propose new ones. Kilcullen is at the vanguard of a new understanding of hybrid conflict and has been influential in shaping current strategies and explaining how to prepare for and fight future wars. He challenges us to look at what is happening from a different perspective and realise that it is the future of war.

Kilcullen questions the visceral US response to 9/11 and the invasion of Iraq. The fact that we have not achieved a quick and decisive victory means that we need to rethink warfare for modern conditions. As he points out, we are generating accidental guerrillas because we have invaded their space and they deeply resent our presence. We have lent prestige and credibility to the terrorists by our too willing and heavy-handed interventions.

As an Australian, on the inside of American political and military thought, advising people like Condoleezza Rice and David Petraeus, Kilcullen is able to ask these questions and implicitly challenge the limits of US military power. He is properly critical of many current policies and offers alternatives. He directly challenges America to observe its own rules because the world won't trust it otherwise. As we are beginning to realise, American power must be matched by American virtue.

The book is far more complex and sophisticated than has so far