Ascent of money essay

The author, Niall Ferguson offers a comprehensive collection of anecdotes and observations about the development of finance. He begins with a brief discussion of pre-money societies. Then, he carries you through the birth of banking in Renaissance Italy, the 18th-century Mississippi and South Sea bubbles, the role of Nathan Mayer Rothschild in the Napoleonic Wars, and the 20th-century transition from the gold standard to free-market derivatives and currency trading. He reveals financial history as the essential back-story behind all history.

The evolution of credit and debt was as important as any technological innovation in the rise of civilization, from ancient Babylon to the silver mines of Bolivia. Banks provided the material basis for the splendors of the Italian Renaissance, while the bond market was the decisive factor in conflicts from the Seven Years' War to the American Civil War. Perhaps most important, the videos document how a new financial revolution is propelling the world's biggest countries, India and China, from poverty to wealth in the space of a single generation-an economic transformation unprecedented in human history.

From Bullion to Bubbles Examples in human history have demonstrated the need for money, and the availability of it, to smear the mechanics of economy. Barter is less efficient, and no money-less society has ever proven sustainable (both Communism and the Incas relied on brutal centralist absolutism and used human labor as currency). Hunter-gatherers will not trade, but battle for resources. As far back as 600 BC, coins were used in modern-day Turkey. Greeks, Romans and later Chinese (221 BC) standardized coins as unit of account (Niall, 2008).

Chronic lack of silver in the old world was only solved by the New world's conquest (rich silver mines in Lima and Potosi). The silver overflow led to unprecedented inflation in Europe. There was no understanding that money did not necessarily had to be precious metal, but is just what someone else wants to give for it (sheets, grain, salt, cowrie shells, clay tablets could be used as money/promissory note and were transacted rather than the goods they represented). Bonds of War Although less exciting than the later stock market, bond markets have shown very relevant and very powerful.

States issue large bonds, often at a 5-10 or longer, at a fixed interest rate. The future expected payments and the face value will determine its valuation. The power lies in here: depending on the credibility of their actions, a government bond will be bought and sold above or below their original value. On top of that, a country's bond market long term rate will set the rate for the economy as a whole. If a government lost too much credibility, it will have to issue bonds yielding a higher interest rate and thereby significantly increasing the cost to the state.

After a while, that government will have to choose between defaulting on its debts or making severe cuts in spending. The roots of modern bonds lie in Northern Italy, where sovereign city states sold bonds to their rich inhabitants (sometimes forced to buy). The money raised was used to pay mercenaries, e. g. Florence paying Giovanni Acuto. Venice famously had an old mountain of debt and had to add to that a new mountain to combat the Turks (Monte Vecchio – Monte Nuovo).

Also Northern France and Flanders had systems of selling annuities to individuals, designed as “ compensation” to the investor to avoid charges of usury. Several other countries tried this, the Spanish Crown very often defaulting on its debts, and the Dutch provinces raising money to fund their self-defense against Spain, later funding its imperialism(Cameron, 2008). Risky Business Another great innovation of modern history is the invention of the joint-stock limited-liability company.

It allows individuals to pool resources while not having to risk their entire personal fortune. In spite of the theory that vigilant shareholders hold control over the management through a non-executive director, the practice is that millions of shareholders will continually buy and sell the infinitesimally small part of the company, thereby estimating the future cash flows it will realize. A number of factors will typically facilitate this process, such as information asymmetry towards insiders, easy credit and the free flow of capital.

What is also very common is the short duration of the investors’ memory, helping to create the next bubble rapidly. Nevertheless, over the long run it has shown profitable to invest in stock rather than bonds, especially in the US. Plant Finance If a modern society wants to organize financial security for its members it will necessarily face a dilemma: does everybody save for himself, having to depend on charity at the moment of a calamity, or does the state provide for relief?

Hurricane Katrina was definitely such a calamity that laid bare the flaws of the current insurance structure. It became apparent that private insurance companies tried to devolve payments to the state (by ‘ proving’ that damage was not done by wind, which is insured by the private insurers, but by flooding, which is insured by the state). Nowadays, big parts of the New Orleans coastal zones are not insurable any more.

Insurance has been invented hundreds of years ago (1350), mainly as a coverage that ship owners or businessmen organized for themselves (Niall, 2008). Life insurance existed as well, but it was by the discovery of the following parameters that risk and coverage thereof was properly understood: probability, life expectancy, certainty (law of large numbers), normal distribution and volatility, utility (value of a good is not the price paid but the utility derived from it) and inference (what counts is the probability of an event times its impact).