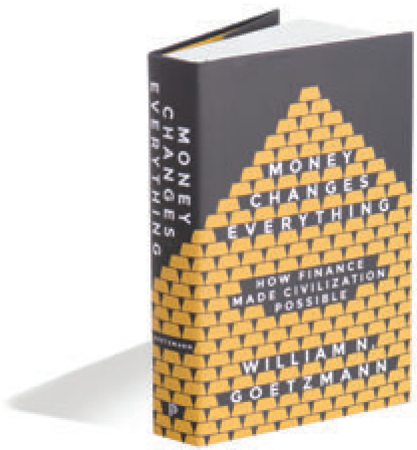
Money, It's a Hit



William N. Goetzmann

Money Changes Everything

How Finance Made Civilization Possible

Princeton University Press, Princeton, New Jersey, 2016, 600 pp., $35.00 (cloth).

A five-year 3.78 percent loan between two businessmen in 1796 may not seem remarkable, but it turns out that's 1796 BCE, and the businessmen lived in the ancient Sumerian city of Ur. William N. Goetzmann's sprawling *Money Changes Everything* spans ancient Mesopotamia to 20th century America, China, and Europe, with excursions through classical Greece and Rome, ancient and imperial China, and centers of financial innovation in medieval and Renaissance Europe.

Goetzmann aims to show the enabling role finance played in the development of human society, culture, and knowledge. His core thesis is that financial innovations through the ages have overridingly had a civilizing influence. Today, when financiers are so often seen as malign influences, such a view may seem contentious, but Goetzmann makes a strong case.

His method of persuasion is to deluge the reader with a wealth of historical detail. The sheer density can overwhelm at times, but he leavens his account with fascinating historical episodes and characters and personal tales of discovery (for example, his role in unearthing the 1372 founding charter of the Honor del Bazacle in Toulouse, France—a corporation that survived into the 20th century).

The book starts in the Mesopotamian city of Uruk, where markings on clay tokens that served as financial records evolved into cuneiform, one of the earliest forms of writing. Early financial innovations influenced humanity's concept of time. A 360-day Sumerian calendar did not correspond in any way to astronomical time, but 360 is a number divisible into many whole numbers, ideal for parceling time into even ratios convenient for financial contracts. (In fact, the 360-day year is still used in calculating modern-day bond interest accruals.)

Conceptions of time in medieval financial contracts may have been a counterpoint to ecclesiastical notions, contributing to a clash between the church and commercial society. Arm's-length financial transactions—and therefore a level of trust in a financial system that could substitute for the personal relationships that prevailed in traditional societies—were critical to increasing population densities.

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Finance also fostered the capacity for abstract thought. Most students of finance recognize its role in the development of mathematics and probability theory, but Goetzmann also points out the degree of abstraction needed to understand, for example, the concept of financial claims as a form of nonphysical wealth that had to be tracked through accounting entries.

Such an all-encompassing tableau frequently delivers the jolting shock of familiarity that is one of the great pleasures of reading history. For example, in the Mesopotamian city of Dilmun, ordinary citizens could participate passively in ventures by contributing capital of a bracelet, much as a modern household might buy a share or two of Google stock. Thirteenth century Venetians eagerly bought *prestiti*, the first true government bonds. Such financial inclusion gave people passive, liquid stakes in diversified income-generating activities that could provide a measure of economic security, as well as a stake in the state's economic expansion.

The book also explores how financial markets continually found ways to liquefy apparently illiquid assets. The records of a 7th century Chinese pawnshop reveal that just about anything with resale value could be used as security for a loan; in the 15th century, a speculative futures market developed in the dividends of the Casa di San Giorgio, an entity formed to handle the finances of the city of Genoa.

The development of corporate structures gets an in-depth look, in particular the importance of liquid, limited-liability claims in fostering necessary risk taking and of the development of public finance (the Genoese government was financed through equity-like instruments long before the development of modern-day GDP- and commodity-price-linked bonds). Coinage (for example, in Greece and Rome) and paper money (in China) are shown to be solutions to specific problems at specific times.

Goetzmann does not ignore the dark side of finance, including financial crises in ancient Rome (33 CE) and the more familiar tales of the South Sea and Mississippi bubbles of the 18th century. He attributes the bursting of financial bubbles as frequently to government intervention (for example, the Bubble Act of 1720) as to irrational behavior among overleveraged investors.

A remarkable work of synthesis and scholarship, the book affords a deep perspective to anyone trying to grapple with current problems in the role of finance and financial regulation in a civilized society.

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