

# On the Money Trail

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

by Niall Ferguson. Basic Books. \$30.

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 “demilitarization 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 economic 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, Fer-

guson 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 little 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 strategic vulnerability through understretch" is relevant, Ferguson avers, to the United States today. "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 resources to making the world safe for capitalism and democracy. This book has tried to show that these are not naturally occurring, but require strong international foundations of law and order." Law and religion, remember, not freedoms, made us rich. Ferguson's is an imperialism worthy of Kipling.

Ferguson simply cannot bear the laissez-faire optimism of a book like Thomas Friedman's recent *The Lexus and the Olive Tree*. *The Cash Nexus* is an extended complaint against a sunny "liberal theory," the view that things are getting better 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 together? 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, especially since America has dropped the reins once so brilliantly held by Great Britain?

I do, and so do most economists. Surprisingly, for someone fluent in economic matters,

Ferguson nowhere gives long-run optimism its economic due: namely, that since the eighteenth century, income per head under capitalism has risen astoundingly. Ferguson's book is full of statistical facts. But never does he reveal the most important statistical fact of recent centuries, well represented by U.S. figures. From 1820 to 1994, the inflation-corrected per capita income of the United States increased by sixteen hundred percent, or a factor of seventeen. In 1820 the average American, slave and free, produced \$1,290, expressed in 1990 dollars—a little below the present-day average for Africa. In 1995 he or she earned \$22,500. You can say all you wish about the sick hurry of modern life (though in fact leisure and retirement were invented in the past century) and the blurring of the sunset in Los Angeles (though in fact the environment has markedly improved in the past half-century: city air is cleaner even in Los Angeles). But the factor of seventeen represents an enormous freeing of people from drudgery, ignorance, fear, and insecurity.

Yet surely, you will argue, the United States is exceptional. Surely the poor elsewhere have been getting poorer. Surely a melancholy economic millenarianism is justified at least by the Third World, yes? No, it is not:

THE WORLD HAS MOVED (1820–1992) FROM A BANGLADESHI LIVING TO A MEXICAN ONE

Year	World GDP/capita in 1990 \$s	Comparable country in 1994	World population (in billions)
1820	650	Bangladesh	1.1
1870	900	(less than Africa)	1.3
1913	1,500	Pakistan	1.8
1950	2,100	Philippines	2.5
1992	5,100	Mexico	5.4

Source: A. Maddison, *Monitoring the World Economy, 1820–1992*, pp. 228, 194–206, 226.

This is a very good thing, to rise from the level of desperation to the level of hope. Notice the acceleration (which has ramped up in the past ten years)—except for 1913–1950, that era of deglobalization, of protection, of foreign policy governed by notions of economic mercantilism favored by Ferguson, and of the wars that come from the rivalrous pursuit of *lebensraum* and the East Asian Co-Prosperty Sphere (the

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 alongside 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 GRIGGS

NO one who has read *Middlemarch* is apt to forget George Eliot’s portrait of the learned Mr. Casaubon, that “bat 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 myopic 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 sly 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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