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A Concise History of International Finance: From Babylon to Bernanke

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Addressing how modern nations have found themselves, as President George W. Bush saw it, 'stuck with these miserable choices' when it comes to resolving financial crises, is at the centre of Larry Neal's concise history of international finance. Neal's book is in fact the latest in a long list of works which have sought to explain to men like Bush, and the wider readership at large, exactly how current financial frameworks came to be. Where *A Concise History of International Finance: From Babylon to Bernanke* seeks to be different, however, is that where Neal has identified most studies to date as having provided 'detailed indictments of the apparent perpetrators of the crisis' (that is whatever financial crisis happens to be under discussion at the time), be that politicians, regulators, or financiers, his work, rather than vilify individuals or institutions, takes both an international view and a 'very long historical background' (pp. 1-2). For Neal, his approach is intended to provide a 'broader and deeper perspective on the financial innovations that accompany economic expansion' (p. 2). Yet, Neal's aim is not simply to provide a history of financial crises, but instead intends that, through recognising the common elements and causes of financial crises, solutions to such problems might be identified. The 'ultimate goal' of this work is detailed by Neal as being to provide solutions to the problems being experienced by the billions of stakeholders who had been created by the years of global prosperity prior to 2008; presenting them with a way to 'both preserve the gains already achieved and also mitigate the dangers of future crises' (p. 3). Indeed, this is no small feat.

Beginning with stone tablets used to record financial transactions in the ancient Mesopotamian city of Uruk, through to the first use of coins, minted from electrum in the Grecian kingdom of Lydia, as currency, and on to the importance of Roman sovereign debt in prompting the first embryonic shifts of the character of debt from the personal to the impersonal, Neal's coverage of the 'first 3,000 years' is indeed brief; amounting to less than 13 pages in total. Arguably this concise history may have been better subtitled *From Pope Gregory VII to Bernanke*; admittedly it does not have the same ring to it, but it is really with the beginnings of the papal revolution in 1077 that Neal's financial history begins to take shape. It was this moment, when Pope Gregory proclaimed his spiritual authority over the Holy Roman Emperor, Henry IV, that has been identified as launching 'the legal tradition that has guided Western politics, philosophy, and economics ever since' (p. 4). From here, Neal charts the impact of Italian financial innovation – bills of exchange, the practice of 'change-rechange' – on intra-European trade during the high middle-ages, and on to the establishment of the *Casa di san Giorgio* in Genoa in 1408. This organisation – a joint-stock company whose shareholders held the sovereign debt of Genoa, administering existing loans as a single debt, and offering a reduced rate of interest – is hailed by Neal as setting 'the basis for modern finance' (pp. 40–1).

Neal's detailed narrative now begins to gathers pace. Through the rise of international financial capitalism of the 17th century – the birth of the *Vereenigde Oost-Indische Compagnie* (VOC), the largest joint-stock company in the world for a century after its establishment in 1602, and the creation of the Bank of Amsterdam – and on to the economic booms of the early 18th century; the Mississippi and the South Sea bubbles. Neal has previously written extensively on the architect of the French Mississippi company, John Law, and as such knows the topic well, providing an astute and engaging narrative of the period. The dangers of over-speculation are well marked out, yet, for Neal the financial crashes of the period were not necessarily a bad thing. Instead he outlines how the Bank of Amsterdam would see an influx of foreign deposits, particularly from France, following the rupturing of the Mississippi and South Sea bubbles; whilst new companies, including those specialising in insurance, would also do well. Additionally, it is emphasised how the strengthening of financial links between the economic centres of London and Amsterdam after 1720 would in turn begin to lay the foundations for the financial capitalism of the following century. Indeed, this highlights an important thread of Neal's thesis; that financial growth is a process, one that involves experimentation, and in some cases collapse and restoration.

This focus upon examples of successful recovery is the cornerstone of Neal's thesis, all with an intention to link it to more recent economic events. Indeed, the second half of the work focuses upon financial crises and innovations from the 19th century; 'the spread of sterling and the rise of the gold standard' (p. 190), and the 20th century; 'the first global financial market', and the era of Bretton Woods (ch. 10–12). Where the work perhaps falls short is upon the inclusion of the sub-prime crisis of 2007. Admittedly, exclusion of the most recent financial crisis to have affected nations across the globe would seem strange, and its addition is undoubtedly what the entire thesis has been leading to. This recent crisis was, however, arguably different from the other examples included by Neal. It was not caused by a financial innovation designed to improve trade or increase the speed at which available currency was circulating in an economy, nor was it the result of fiscal restructuring to cover the cost of war. And whilst it may arguably be viewed similarly to the speculative adventures of John Law almost 300 years earlier, Law's intentions were wildly different from the architects of the 2007 crisis. Law had never intended his venture to fail, whilst, as Neal outlines, the success of Goldman Sachs' Collateralized Debt Obligation (CDO) had never been a key aim of the firm. Instead these investment opportunities, which handpicked 'the diciest-looking mortgages from the most vulnerable states', packaging them as high-yield, safe security investments for European investors, were always designed to fail. This would then allow prominent, hedge fund investor John Paulson to bet against it by purchasing a Credit Default Swap (CDS), also, it should be noted, from Goldman Sachs (p. 295). The subsequent 'slicing and dicing' of sub-prime mortgages into new financial products which imitated the CDO would do little to help the situation (pp. 299-300).

The inclusion of the 2007 crisis is undoubtedly necessary to pull Neal's thesis together. The cause of this financial breakdown had, however, been instigated by a different set of factors to the other examples detailed throughout the work, arguably weakening the desired impact of this concise history. Additionally, Neal's ultimate goal of providing solutions to the problems being experienced by billions of stakeholders following the 2007 crash, is also questionable. Little, if indeed any, correlation has been made between historical examples of economic crises and their subsequent solutions, with the more contemporary examples of financial crashes. The work could perhaps have benefited from an additional concluding chapter which sought to delineate the links between past and present, and what could be learnt from historic financial crises. Instead Neal has tacked on two concluding paragraphs to the final chapter on the sub-prime crisis of 2007. Here he identifies the recurring challenge to be

> how to coordinate effectively private financial organisations (banks), public access secondary markets (stock exchanges), and government oversight (regulators) to create a beneficial

financial system (p. 311)

Whilst this point is valid, it is the same one which is made early in the work, and one which has not been expanded upon.

Reducing over 3000 years of financial history into one concise volume was always going to be tricky. One might have hoped for the inclusion of examples of financial innovation that were not for the most part drawn from the main centres of London, Paris, Amsterdam and indeed the United States. (Perhaps, consideration of the widespread fiscal reforms being undertaken by the covenanting government of Scotland throughout the 1640s?). This is, however, the very nature of providing a ‘concise’ history of three millennia in just over 300 pages. Overall, Neal has provided an engaging narrative that charts the evolution of finance from the personal to the impersonal, along with the innovations and crises that have marked this interesting history. It is a well written treatise upon the benefits, and indeed the pitfalls, of financial innovation, offering much to academics in the field; whether it has achieved the aim set by its author – namely to provide solutions to the problems being experienced by the billions of stakeholders created prior to 2008 – is, however, up for debate.
