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HOW WE GOT HERE

A Critical Analysis of Niall Ferguson's *The Ascent of Money*

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A Critical Analysis of Niall Ferguson's *The Ascent of Money*

Subject: Niall Ferguson's *The Ascent of Money: A Financial History of the World* offers a history of six crucial components to modern capitalism, the benefits these provide, and the consequences of their realization.

Significance: Ferguson's work summarizes his understanding of capitalist finance, advertises the evolution, strengths and potentials of capitalism, and cautions of the dangers of forgetting key economic principles. For the Muslim scholar, it is absolutely necessary to comprehend not only Western finance, but the intellectual framework that defends this value system, argues for its benefits and, simultaneously, excludes and marginalizes Islam and other (moral) economies.

Executive Summary: This review of Niall Ferguson's *The Ascent of Money: A Financial History of the World* [1] is divided into three sections. After introducing Ferguson, I summarize the themes and content of this conceptual history of modern finance, noting those arguments most relevant to a scholarly Islamic audience. In closing, I will attempt the following: Firstly, to discuss the intellectual climate that reflects Ferguson's positions, those beliefs and values which frame his book. Secondly, to point out the relevance of conceptual histories to Islamic scholarship, taking Ferguson's work as an inspiration to begin similar projects, albeit within and for the Islamic tradition. Lastly, to explain how conceptual histories of Islamic finance will provide depth to Islamic scholarship, on questions of finance, economics and the like. I will end with a series of questions designed to stimulate further discussion.

ANALYSIS

At only forty-four years of age, Ferguson is Professor of History at Harvard University, Professor of Business Administration at Harvard Business School, Senior Research Fellow at Oxford University and Senior Fellow of the Hoover Institution, a conservative think-tank affiliated with Stanford University. He is the author of several monographs, although two particular works brought Ferguson to a mass audience: *Empire: The Rise and Demise of the*

1. Niall Ferguson, *The Ascent of Money: A Financial History of the World* (New York: Penguin Press, 2008).

British Empire and the Lessons for World Order,[2] and *Colossus: The Rise and Fall of the American Empire*.[3] These books endeared Ferguson to the neo-conservative right, as he argued American imperialism was the necessary and natural successor of British imperialism.

Ferguson consistently sees the United States as the inheritor of a particularly British model of, and attitude to, financial capitalism, founded on free markets, representative government and secular modes of understanding. In the last few years, however, Ferguson has soured on America, starting with his insights into America's financial inability to sustain an imperial agenda. In fact, Ferguson now compares the US to the late Ottoman Empire, a great power collapsing under the weight of economic mismanagement.[4] So *The Ascent of Money* reassures its audience of the possibilities of capitalism, but reminds the audience of how capitalism, as a set of institutions and concepts, is not limited to one country or set of countries, but has long transcended the control and oversight of national governments. Hence, although America is the world's largest economy, its government can do little to slow the transfer of wealth from the North Atlantic to East Asia.

The Ascent of Money explains how the wealth of the modern West was created through (and because of) modern finance by tracing six core components of modern finance through history. By explaining how these six emerged, and what advantages they gave economies that utilized them, Ferguson shows the benefit of capitalism at a time when many might be arguing against it. Capitalism's key strength, Ferguson believes, is its ability to create wealth and in so doing raise living standards and promote progress.

But to whom is he preaching? While well-written and often fascinating, *The Ascent of Money* assumes a foundation of financial knowledge a non-specialist would be hard-pressed to follow. This, then, is a work aimed at an engaged audience, including politicians, professors and other opinion-makers, whom Ferguson would like to educate. In so doing, he elides or ignores several issues which, by this measure, must be judged unimportant to him and his audience.

Firstly, while the concepts and practices Ferguson will discuss may have corollaries in other societies, he is indifferent to them; Muslims, for example, play a marginal role in his history. Secondly, Ferguson makes little if any mention of alternative Western economic theories, such as Communism, in effect confirming that history has ended, a peculiarly Anglophone conceit. Thirdly, Ferguson is blind to or uninterested in the fact that for centuries the capitalist system and its ethics as now dominate in the West did not exist anywhere in the world, least of all in Europe. Lastly, Ferguson pays little attention to the relationships between capitalism and colonialism, which many have argued are inseparable. This exploitative nature can also be noted in that capitalism, unlike the nation-state, is not subject to democratic checks and balances, and its logic and financiers overrule such states.[5]

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2. Niall Ferguson, *Empire: The Rise and Demise of the British World Order and the Lessons for Global Power* (New York: Basic Books, 2003).
3. Niall Ferguson, *Colossus: The Rise and Fall of the American Empire* (New York: Penguin Books, 2005).
4. Niall Ferguson, "An Ottoman Warning for Indebted America", *Financial Times*, January 1, 2008.
5. The best discussion of the process whereby capitalism overrules all boundaries – from cultural and social to the national – is in the reviewer's opinion the following: Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 1957). Polanyi's work has an especially

The Ascent of Money is divided into six chapters: 1) money and banking; 2) the bond market and national debts; 3) the first corporations and the stock market; 4) insurance and risk management; 5) housing and property; and 6) the great transfer of wealth, now apace, from West to East. Written in March 2008, the book senses the great dangers of America's huge mortgage debt but underestimated them, as most mainstream economists did. Recent interviews reveal Ferguson's view of America has turned still more pessimistic.

In Chapter 1, Ferguson traces how new conceptions of money became the basis for modern banking. Ferguson spends much of the chapter discussing the decisive difference made by better banking to the competition between European powers. By the middle of the fifteenth century, Spain and Portugal had established extensive empires; Portugal controlled Indian Ocean trade while Spain dominated most of the Americas, rich in gold and silver. The Spanish monarchy believed that the incredible stock of American gold (and silver) it controlled constituted an increase in wealth. This mistaken belief cost Spain dearly: an unregulated increase in the supply of money did not create wealth but instead inflated cost, deflating the value of money, subjecting Spain to skyrocketing inflation and repeated bankruptcies. Within two centuries, the Dutch and English had muscled Spain and Portugal out of many territories.

Ferguson argues that better banking practices, as well as the institution of a national bank, made the difference. The national banks of Holland and England each permitted their respective governments to raise money for their own purposes (see Chapter 2 below). National banks also permitted better oversight of the national economy, creating wealth in the economy (as opposed to simply printing money, which was in effect all the Spanish did). Eventually empowered to set interest rates at which banks could borrow from its reserves, the standard national bank as exists in the West today can monitor prices to fend off deflation and inflation. This allows government policymakers to maintain a supply of credit when it might be in short supply and restrict that supply when it threatens to exceed capacity. This temperate model historically encouraged investment and so innovation, as businessmen did not fear the loss of their capital, whether literally (through state seizure or bank runs) or metaphorically (through depreciation).

In Chapter 2, Ferguson discusses the evolution of the bond market as a point of sale for national debts. It was in part the availability of government bonds that allowed for Europe's spectacular economic and military progress, funding long-term projects the likes of which non-European states could not match. Ferguson traces the bond market to the Italian Renaissance, during which time governments compelled wealthy citizens to loan money for the financing of wars against the Ottoman Empire. In return, these citizens were paid a compensation fee as interest (although the Catholic Church considered interest to be a form of usury and so impermissible, the loans were exempted from moral condemnation because they were made under duress). The national debt strengthened the government and ensured stability – itself good for business – to a degree hitherto unseen. Compare, for example, the business-oriented regimes of the United Kingdom and the United States with the more fiscally irresponsible governments of France and Spain, the latter two subjected

thought-provoking outline of how capitalism came to create markets out of land, labor and money, and what massive social instability and dislocation ensued from this commodification.

to revolutions, dictatorships and periods of political weakness. Few Muslim scholars have asked whether the failure to establish soundly financed government debts can help explain the non-competitiveness of much of the Muslim world.

In Chapter 3, Ferguson links the Dutch United East India Company (VOC), to the world's first stock market. Formed in 1602, the VOC permitted a tiny state on the northwest Atlantic to create, control and profit from a network of fortresses, ports and fleets active from New York to Indonesia. The VOC was the world's first corporation, a brilliant legal innovation by which a partnership between investors constituted a legal person and was therefore understood in a court of law as separate from its creators and investors. By investing a company with this legal personhood, the Dutch were able to encourage long-term investment on an unprecedented scale, as any investor was only potentially liable for his purchased shares of said company. More significantly for Dutch success, VOC profits were not distributed for several years. During this time, invested capital financed the fleets and factories necessary to produce goods which were exchanged for spices and textiles; these high-value Asian goods were then sold for profit in Europe. Uniquely, VOC shares could not be exchanged for currency but were salable to other investors, resulting in the birth of the world's first stock market. As traders could move money between companies, better-organized and managed firms outpaced less productive ones – a process of renewal that produced massive economic growth.

In Chapter 4 Ferguson observes the birth of insurance in his native Scotland, a strategy of risk management that became part of the heritage of Western economics, most obviously in the form of the social welfare state. In 1744, Scottish ministers applied advances in mathematical probability to calculate risk and, in so doing, reduce its financial consequences. These churchmen had been attempting to determine monthly contributions to pension funds for the families of deceased ministers, a scheme which required not only a knowledge of the average number of beneficiaries and their cost of living, but also life expectancy, causes of death, etc. These analyses of risk and the formulae behind them became the basis for insurance, which in turn provided the skill set necessary to establish social safety nets tempering the harshest effects of naked capitalism. The social welfare state dominated the non-Communist West until the 1970s, at which point rising costs, flagging birthrates and increased life expectancy led to economic stagnation.

The radical neo-liberalism, which has dominated American politics over the last thirty years, was able to take advantage of this crisis and undermine social welfare programs, but has proven, by the end of the Bush regime, to have done little more than bankrupt society. The American economy, guided by governments decisively in favor of corporate interests, has increasingly focused on consumption while simultaneously hollowing out its industrial capacity, erasing the very middle class necessary to purchase those goods on which the economy prospers. With this chapter Ferguson moves from the historical to the pedagogical, noting how recent financial developments may have undercut American and Western wealth creation.

In Chapter 5, we learn how the early Anglophone preference for home ownership has become the basis for a series of market bubbles. From 1959 until today, total mortgage debt outstanding in the United States increased seventy-five fold. Because Americans have no guaranteed safety net, home ownership became not only personally desirable but apparently financially wise – in the event of crisis a homeowner could take out a mortgage or sell his home to raise capital. However, the judgment was flawed: homes are hard to sell during an economic downturn, making it harder for families to find new jobs, and mortgages, with variable interest rates, are often sold to persons who do not understand them. This alone was not enough to create a speculative bubble. Rather, the easy refinancing of mortgages, often by deceptive advertising, became the standard method by which American consumers maintained high living standards.

The recent global economic crisis is a consequence of trillions of dollars of mortgage debt, primarily in the US, which was packaged, spliced, and sold to investors in a process known as securitization. It was anything but. As more and more American consumers found themselves unable to pay mortgages in the face of resetting interest rates and a popped housing bubble, a wave of defaults drained portfolios worldwide. Many investors had no idea of the toxicity of the securities they held onto. Many were advised to hold such securities on the advice of American firms, on the assumption that these were safe investments since the entire US housing market could not collapse.

Ferguson believes that American economists should have seen this coming. In Chapter 6, Ferguson explains why America is falling behind – simply, it is the increasing reliance of the American economy on the overstretched American consumer. Americans purchase far more than they produce (on a national scale), and in so doing annually send billions of dollars to foreign producers who, until recently, had reinvested those dollars in US government debt. These reinvestments made possible both a government and a standard of living that could not otherwise be. The recent crisis has exposed the fragility of this global system and has activated basic economic principles the US cannot avoid. No longer content with government bonds, America's creditors demand assets of real value, as evidenced in the Dubai Ports World incident, when Congress tried to intervene to prevent what has only a few years later become common: foreigners are buying more of America, purchases increasing in frequency and scale. Although Ferguson predicts a dimmer future for America, he does not by any means see the current crisis as the failure of capitalism, but rather the failure of one country (America) and the possible succession of another (China). This point is essential to understanding this work: it is not capitalism that has failed, but rather the abandonment of lessons learned in the growth of modern capitalism. Ferguson's allegiance to the economic system, as opposed to the nation-state, reveals the disturbing disinterest of the capitalist in the local and the rooted.

After the collapse of the Soviet Union, the American intellectual scene has been near monopolized by thinkers who champion a reading of history as determinist as any Marxism – a teleological reading of events that confirms an "end" to history and a final, irrevocable triumph of liberal democracy and the free-market system. Many such thinkers argue that history has ended (in America), though recent crises and failures have noticeably shaken their confidence.[6] Still, the Eurocentric narrative dominates: alternate moral economies are

6. The expression returns us to Francis Fukuyama, *The End of History and the Last Man* (New York: Free Press, 1992). Fukuyama argues that, on the demise of Communism, Western liberal democracy is the only

not even competitors, but lingering relics of the past awaiting their expiration. Should even China displace the West, it will still be only a transition from one mode of European secular-materialism (Communism) to another (state capitalism).

In such a conversation, there is little mention of the broader Muslim world nor – and more significantly – of Islamic finance, the moral economy Islam preaches.

Until now the Muslim world has produced little creative research into its institutions and concepts. The result has been a marginalization of Islamic scholarship within our communities, the diminishment of our moral economy in the face of more attractive ideologies, and the absence of Islam from global conversation. Islam features in Western history as little more than a medieval storage house for Greek wisdom or a current irritant huge in numbers but small in potential. Ferguson's book is the same. His main reference to Islam comes with his acknowledgment that Italian city-states used interest-bearing bonds to finance wars against the Ottomans. But what is a minor detail to Ferguson – namely, Muslims – must be for us the basis for a conceptual history of Islamic finance within an Islamic framework: How did the Ottoman Empire finance itself? How did it articulate ideas of money, banking and credit, and did it do so in an Islamic idiom? Did Ottoman *'ulama* study the financial innovations made by European societies contemporary to them and, if so, what was their opinion of these innovations? I speak not of the later periods of Muslim history, when the West could not be avoided, but during those centuries, viz., the fifteenth to seventeenth, when Muslim and non-Muslim dynasties were comparably equal.[7]

I am conscious that few such histories have been written. This dearth demands we familiarize ourselves with the philosophies of history and methodologies of research which have increasingly migrated from Western academia into Western public conversations. Over the last thirty years, social scientists have moved away from narratives of nations or economic classes and have begun to look at the intersections of culture, economics and politics, tracing how concepts come to be understood and how their meaning fluctuates over time (what is known as semantic instability).[8] Muslims need research that operates in the normative

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remaining ideological option and the entire world will eventually adopt its premises and conclusions. In so forecasting, he disregards any options not Western. Such arguments are worryingly common; perhaps one of the best summaries of the intellectual origins, forms and effects of these opinions comes in Dipesh Chakrabarty, *Provincializing Europe: Postcolonial Thought and Historical Difference* (Princeton, USA: Princeton University Press, 2007). Read especially the first chapter, where the author describes the nicely termed "waiting room" of history, such that history only really happens in Europe while Asians and Africans occupy some kind of waiting room, there detained till they are ready – intellectually, culturally, metaphysically, etc. – to become part of the "world." Such language is frequently used uncritically by Westerners dismissing alternative points of view as – how is this for consistency? – "backwards" or "medieval." The non-European is not only in a different *where* but a different *when*.

7. Although co-equal in military capacity, these Muslim states were far less politically stable than their European rivals and were characterized by an apparent intellectual stagnation. While Europeans rushed through a massive period of discovery and dialogue, marked by monarchs such as Peter the Great of Russia, who traveled through Europe to uncover the latest technological developments, the Ottoman dynasty was increasingly confined to its palace and wracked by succession struggles.
8. Semantic instability describes how terms and concepts change meaning over time. Many popular historians fail to accommodate shifts in meaning, such that they explain the past as if it is in the present. A small example: The United States Declaration of Independence asserts that "all men are created equal,"

framework of the Islamic tradition, but which does not assume that this tradition was static. The Islamic scholar, in responding to questions of contemporary concern, will greatly benefit from understanding the ways in which Islamic tradition was historically realized and practiced.

Applied to the topic of finance, Islamic scholarship would most benefit from an engagement with and cultivation of two broad concerns. Firstly, to understand what Islamic economics looked like. In much the way Ferguson explains how today's West came to be, Muslim scholars should consider what made the Islamic world what it was. As a case study: In *Empire and Islam: Punjab and the Making of Pakistan*, David Gilmartin argues that throughout the nineteenth century the lending of money at interest was exceedingly rare in Muslim areas of the Punjab.[9] It was not, however, rare in Hindu and Sikh communities, such that many Punjabi creditors were Hindu. Did this fact have any roots in Islam or were other factors responsible? What semantic consistencies and instabilities are conveyed in terms such as *riba*? How did such Muslim societies finance their growth, education, and cultural and social needs? Were these societies economically commensurate with non-Muslim communities?

Secondly, and this is more pertinent to the Islamic scholar, we must understand the necessity of an Islamic economics which speaks to the world in which we live (as, indeed, Ferguson knows the importance of emphasizing the historical success of capitalism at a time of crisis). Conceptual histories – such as the exploration of Punjabi Muslim practices suggested above – will let scholars pursue such goals more comprehensively and capably. For example, by exploring how Muslims responded to the ideal of charity in different historical circumstances, scholars can better understand the ideal of charity in and of itself, and provide better legal opinions for Muslims debating new ideas about charity.

One cannot stress the importance enough: Islam is the only remaining world-religion with an explicit moral economy. Islamic scholars have the obligation to ensure we question Islamic finance. What does Islamic finance *intend*? What can it *create*? Are its aspirations not too often muddled by unexamined beliefs in utopian endpoints? Returning to Ferguson's first chapter, what are we to make of regular calls for Muslims to return to a gold standard?

Ferguson begins and ends his book with the remark that poverty is often exacerbated by the absence of non-usurious lending and banking facilities. The poor are not only poor because they lack wealth, but more meaningfully because they lack the means by which wealth is created. Considering that the majority of the world's Muslims are living in impoverished societies, it is unfortunate that the practice of Islamic finance is so far largely concentrated in the wealthiest parts of the Muslim world. Can Islamic finance work for the rest of the *Ummah*?

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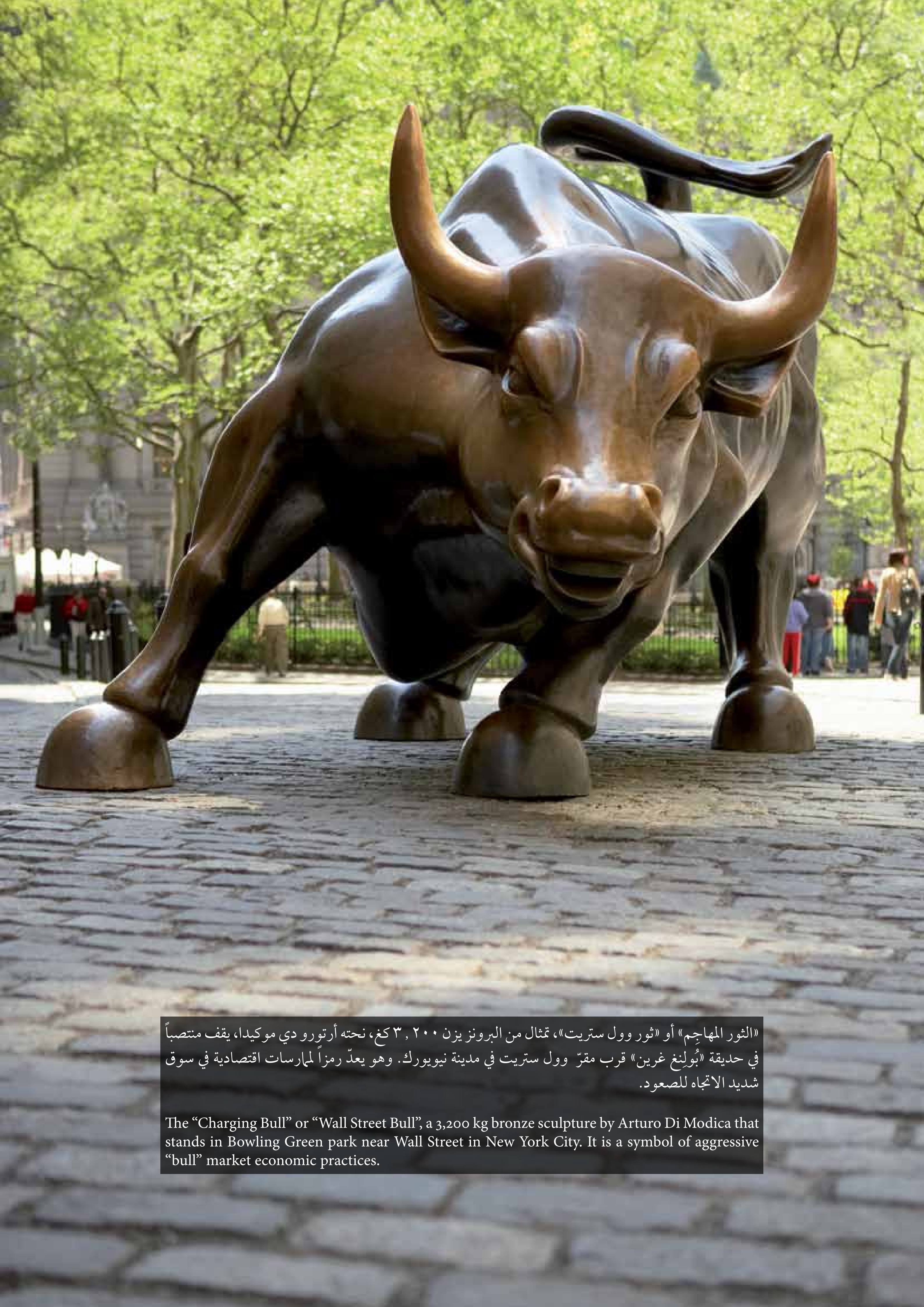
though what English speakers understand by "men" (as well as "created" and "equal") has irrefutably changed over time. Today, most Americans interpret the passage to mean all humans are equal in rights (if not capacities); for the Founding Fathers, "men" was generally understood to mean propertied white males, usually Protestant Christian as well.

9. David Gilmartin, *Empire and Islam: Punjab and the Making of Pakistan* (Berkeley: University of California Press, 1988).

I shall end by trying to start a discussion on the issue of adequate and affordable housing, a deep anxiety for the young, fast-growing Muslim world. On the affordability of housing depend many Islamic concerns, such as the possibility of marriage at a suitable age, the stability and continuation of family life and social harmony. In the absence of variable interest rates, how can poorer persons find access to credit? It is not hard to imagine that a non-interest based banking system will exclude, as a matter of policy, those who pose any sort of credit risk, thereby negating the potential of Islamic finance in developing Muslim societies and excusing Islamic scholarship from speaking to the challenges our community faces. We should certainly hope not.

Conclusion: Ferguson's work presents a defense of modern capitalism through a historical exploration of its strengths, most important of which would be its apparent ability to create wealth instead of redistributing wealth. Yet Ferguson's work reflects and does little to challenge dominant narratives of Anglophone self-understanding, lauding capitalism while choosing to ignore its underbelly. What was the role of colonialism in the development of capitalism? Is the exploitation of non-European populations – indeed, the creation of the non-European – not salient to such a study? Typically, too, the work ignores the non-Western world's ideas, values and roles in history, except for minor concessions to ancient histories.

For the Muslim scholar the work represents a positive insight to some of capitalism's genuine strengths, as well as a model for how to better answer questions of Islamic finance – through not only legal argument, but also the construction of historical genealogies of concepts and institutions.



«الثور المهاجِم» أو «ثور وول ستريت»، تمثال من البرونز يزن ٣,٢٠٠ كغ، نحته أرتورو دي موكيدا، يقف منتصباً في حديقة «بُولِنغ غرين» قرب مقرّ وول ستريت في مدينة نيويورك. وهو يعدّ رمزاً لممارسات اقتصادية في سوق شديد الاتجاه للصعود.

The “Charging Bull” or “Wall Street Bull”, a 3,200 kg bronze sculpture by Arturo Di Modica that stands in Bowling Green park near Wall Street in New York City. It is a symbol of aggressive “bull” market economic practices.