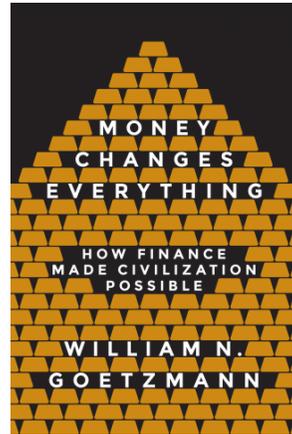


William Goetzmann. *Money Changes Everything: How Finance Made Civilization Possible*. Princeton: Princeton University Press, 2016. Pp. x + 584. ISBN 978-0691143781. Hardback \$35.

“We make civilization happen.” These were the words of a former boss at an investment firm where I worked, and something I will never forget. They were not said with pride or arrogance, but a genuine belief that our work of finding profitable investments and allocating capital made the advances of human civilization a reality. For those that are skeptical of this claim, William N. Goetzmann’s book *Money Changes Everything: How Finance Made Civilization Possible* offers a compelling case.



The book is largely a historical account of the various financial innovations since the earliest records, stretching back well over five-thousand years ago to the near present modern times. However, Goetzmann clearly states at the outset that it is not meant to be a systematic textbook to document every financial innovation throughout history. Instead, the purpose of the book is much more exciting and beneficial: to argue that “financial technology allowed for more complex political institutions, enhances social mobility, and greater economic growth—in short, all the major indicators of complex society we call civilization” (p. 14).

The book is divided into four major parts, each covering a large swath of history or civilization. In each section Goetzmann notes how a particular financial innovation led to or allowed a building block of civilization. Part I starts with some of the earliest written records of counting used to track commodities in storehouses and brings the reader through time to Roman finance, noting that tools of finance allowed for the growth and sustenance of one of the greatest empires on record. It is

also striking that the complex tools of finance we still use today were discovered long ago, including financial contracts, equity and debt instruments, compound interest, and corporations. There truly is nothing new under the sun.

Part II examines the financial legacy of China, tracing the emergence of money and how China developed its own unique financial system intertwined with the state. Part III focuses on Europe, transporting the reader to the crusades, early Venice, and the exploration and discovery of the New World. The coverage of both the South Sea and Mississippi bubble is highly entertaining. Part IV discusses the emergence of global markets and the tensions surrounding Marx, Lenin, the world wars, and Keynes.

Although the book is not a short read at six-hundred pages, it feels breezy given such a large passage of time is covered and how the reader is quickly transported from one place to another. Currently a professor of finance at Yale, Goetzmann readily admits that his choice of events and civilizations are biased according to his travels, as well as his participation in archeology and filmmaking. Some will undoubtedly argue that key events were left out. However, the reader benefits from Goetzmann's rich storytelling and vivid imagery, which provides a sense of place and culture to give readers the full context and significance of each new financial innovation.

The strength of Goetzmann's argument is his insistence that the story of finance is a story of technology: a way of doing things. He is also on sound footing in arguing the power of finance is the ability to move economic value forward and backward through time (think of a mortgage contract or retirement account). He states that "civilizations demand sophisticated tools for managing the economics of time and risk" (p. 2).

Perhaps this argument is not very controversial nor insightful. Yet I believe the parallels between financial technology and other pivotal technological advances really are profound. One parallel is how technological advances have the power to literally change the course of

history. Consider firearms, steam engines, penicillin, or the internet, to name just a handful of examples. These major advances also have a way of upsetting the prevailing order. As Goetzmann notes, “While finance can solve great problems it can also threaten the status quo” (p. 7). It has the power to reallocate wealth, power, and cause social disruption.

We easily recognize this throughout history with regard to technological advances in all other fields. From the protests of the Luddites, the explosion of the internet and freedom of speech, to the striking of taxi cab drivers in response to Uber—technology upsets the status quo and undermines the prevailing power structure. However, it seems that people typically do not think of advances in finance the same way they think of other technological advances. Finance seems like it belongs in a separate category that is not like other technologies. Why?

Goetzmann appears to identify one reason, but misses another. One reason people view finance differently than other technologies is that it is more abstract. It requires thinking in terms of intertemporal choices, abstract values, and future (uncertain) cash flows. Pieces of paper such as currency or contracts represent value, and increasingly these things are all digital. Goetzmann’s book seeks to dispel this notion. He emphasizes that finance is personal and concrete, not abstract and theoretical. It’s about people and how they use their money, time, resources, and energy.

But people also view money and finance as something much different than the latest technological invention, something more dangerous. Goetzmann understands this to some extent as he observes, “Because finance is a potentially destabilizing force, society has often sought to place bounds on it. These constraints are sometimes couched in moral terms” (p. 8). One example given is Britain’s “Bubble Act,” which restricted the creation of businesses under the pretense of stopping immoral speculation.

Because finance involves money and people’s life savings, and also because money evokes such strong feelings and responses, especially greed, many believe finance should receive special consideration when it

comes to laws, restrictions, and protections—most notably from the state. Goetzmann follows this path himself remarking that behind these restrictions is the “implicit and reasonable supposition that rules are needed to prevent the financially adept from exploiting those less sophisticated” (p. 8).

The book ends on a weaker note as Goetzmann clearly believes the present and future of financial technology lies in government programs and organizations. He praises the World Bank and the International Monetary Fund as global institutions that have served us well in the past and will hopefully continue to in the future (although he does at least mention economist William Easterly’s criticism of the World Bank). Despite paying tribute to Ayn Rand and her influence in a few of the last pages, he concludes that her thought suffers from many of the same deficiencies as the writings of people like Marx and Lenin—full of inspiring rhetoric but short on practical, *political* solutions (emphasis mine). He complains that, “Rand portrays politics as the enemy of principle” (p. 452).

Goetzmann believes financial markets and government coexist and complement each other and that financial tools need to keep up as the world moves toward a “collective global civilization” (p. 521). He showcases government pension systems and sovereign wealth funds aimed at providing for its citizens, and it appears that he believes that is how future financial problems will be dealt with. However, he is due some credit for noting some of the social and cultural problems inherent to these systems, as well as their lack of feasibility.

These government schemes are not financial innovations or novel ways of doing things. They are merely age-old plans of robbing Peter to pay Paul, or (as is increasingly the case) robbing future generations to pay current ones. Indeed, this book itself illustrates how governments throughout history have sought to bend the financial system to their priorities, from the Roman empire, to the Chinese dynasties, to world leaders using it to pay for atrocious world wars.

Starting with such a powerful and accurate thesis that finance is technology, I would challenge Goetzmann into following his own logic and the arc of history to imagine how future generations will continue to innovate in the financial realm to solve unique and complex challenges. He even admits that what financial solutions we have created are “generally life improving” (p. 584) and we have made progress dealing with problems they may have created in the process.

As a very recently published book it would have been refreshing to see profiled some of the more cutting-edge tools that are currently being tested and experimented with as a glimpse of what is to come. New models and forms of credit such as peer-to-peer lending are disrupting traditional banks. New technological platforms are giving everyday workers and savers easy access to financial products and asset classes that were previously only for the wealthy, such as managed futures funds, direct ownership of rental real estate, and some of the lowest cost global portfolios imaginable.

Goetzmann also claims that finance is neither intrinsically good or evil, yet he shows that finance has been the basis of, or the impetus for, the development of writing, mathematics, and law. Although many believe that finance is always and ever a corrupting force, as Christian we must recognize that, as one of God’s creations, finance is inherently good.¹

In conclusion, *Money Changes Everything* is a *tour de force* and a captivating read that zips through history, jumping from one civilization and time period to the next, demonstrating the role of finance in the story of human progress. As a professor, most of Goetzmann’s work is scholarly, but he specifically states that he intended this book for a broader audience: anyone who is curious about “the origins of a toolkit that we all share and a mindset that seems at times difficult and perhaps unnatural”(p. 14). Readers will likely be convinced that finance is indeed

¹ Cf. Samuel Gregg, *For God and Profit: How Banking and Finance Can Serve the Common Good* (New York: Crossroad Publishing, 2015), reviewed by Jamin Hübner in *Faith and Economics* 68 (2016):142-146.

another technology or way of doing things. Therefore, it should be embraced, not only for its magnificent power but also as a domain to be continually reformed and improved through entrepreneurship and creativity, just as it has for thousands of years.

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