

Ruben Alvarado. **Follow the Money: The money trail through history**. Aalten: WordBridge publishing, 2013.

Reviewed by Chris Gousmett.

A history of money might sound like a subject of interest to mainly to collectors of antique coins, or perhaps a discussion of dry issues of interest principally to academics. Instead, Alvarado has given a fascinating account not merely of the history of coinage and paper money, or of the theories of the nature and function of money, but how these theories influenced the choice of the material content of coins and how these coins then functioned in the economies of the day. While the book is not a history of coinage as such, it is illustrated at various points with images of the coins which played a part in the associated narrative.

Starting with what we can learn of the first money in Babylon and the banking system which developed in association with that, through the economies of Egypt, Greece and Rome, and then on into mediaeval Europe and other countries such as China, Alvarado weaves together the influence of political, military, and economic events on the value, use and form of money. As Alvarado argues, we cannot understand how money functions in present-day society without investigating how it has functioned in the past, thereby shaping our current perceptions and theories about how money “works” in society.

Probing such issues as the gold standard, bi-metallism (use of both gold and silver as a standard for money), and covering topics such as how Rome’s bronze coinage contributed to the Romans’ ability to withstand the economic as well as the military impact of the invasion of Hannibal and the Carthaginian army, with its silver-based coinage. This brought out clearly the distinction between a precious-metal standard compared with a fiduciary system of money. A fiduciary system is one in which coinage bears a nominal value greater than the inherent value of the metal from which it is made.

A discussion of the impact of the collapse of the Muslim Abassid dynasty in Baghdad in the 9th century brought financial pressures, reflected in the reduction in the flow of coinage, in mediaeval Europe. This was followed by the invasion by the Norsemen seeking booty, themselves hard hit financially as they conducted much of the trade with Baghdad via routes through present-day Russia.

Then follows a discussion of mediaeval economic systems and the growth of mercantilism, or increased trade made possible by accumulation of capital, merchant bankers and the development of banking systems allowing credit, and commodity money, tied to the ebb and flow of trade, which led to problems with balance of payments as countries with a lack of mineral wealth in silver and gold saw their coinage disappear into cities like Amsterdam which bought and sold commodity goods in great volume.

Classical economic theory, natural law theories, and the development of the gold standard lead into an exploration of the development of theories of money. Alvarado explores the obscure theories of James Steuart (died 1780) as a contrast to the more well-known counterpart of the day, Adam Smith, author of the “Wealth of Nations.” Alvarado argues that Steuart had a superior understanding

of the nature and function of money to that of Smith, and it would seem that had Steuart's theories triumphed instead of those of Smith, the world would have been better for it. Steuart saw money as a symbolical form of the wealth represented by assets, against which an owner could borrow money (thus generating an increase in the money supply) secured against the assets. Money then represented the value of the assets which secured it: a far cry from the complex and virtually unfathomable mysteries of financial markets of recent days in which wealth is created or extinguished through movements on a stock exchange which have no real connection to the underlying value of the assets the stocks supposedly represent. Alvarado shows how the theories of money which lie behind our recent financial crises, from World War 1 and the hyperinflation, depression and arguments over the gold standard which followed, through to the current on-going crisis, contribute in no small part to the inability of politicians, bankers and economists to find a solution to the problems; that is, a genuine lasting solution, not a response which papers over the cracks but leaves the fundamentals unchanged and riven with the fault lines which will simply reappear in a future crisis.

While this book is a study in history preliminary to the development of a more robust economic model and theory of the nature and function of money, it gives enough hints about the shape of which might be developed in a subsequent study to make that something to anticipate with enthusiasm.

Perhaps unlike what non-specialists might expect with this subject, this book on the history of the theory of money is well written, a cracking good read and full of fascinating insights about the impact of money in its various forms and functions on some of the seminal events of world history. It would be accessible to anyone with an interest in history, economics and theories of money, as Alvarado takes care to explain technical issues with clarity, thus enabling the non-expert to follow the story and grasp the significant of the events narrated not only for the time but for our day also.