



Aaron Brown

The Origins of Value

The physical legacy of the history of finance is worth examining for a deeper understanding of what it is you do ...

One of the great things about teaching finance in New York is you can send students to the Museum of American Finance. Until recently it was known as the Museum of American Financial History and tucked away in a tiny storefront two blocks south of Wall Street on Broadway, this year it is moving to a spacious new home on Wall Street under its shortened name. You cannot understand finance without knowing some financial history, and you cannot understand that history without seeing and handling the documents and equipment of past ages.

It's one thing to learn the definitions of bill of exchange, trade letter of credit or land grant; it's another to see the original documents. How big are they? Are the words written in clearly printed vernacular or archaic scripts and languages? Were they meant to be carried around or placed in a safe? Are there spaces for writing bearer names or payees? Are the denominations printed or written in? Did people fold them or clip portions or stamp them or spindle them? Are they expensively engraved with patriotic and optimistic symbols? Or are they cheap utilitarian documents? How could a user detect counterfeiting?

For questions like this, one picture is worth many more than a thousand words, and stays in



the memory much longer. You start using your brain to reason from the document to its use, rather than memorizing incomprehensible definitions. Seeing a wall of beautifully engraved defaulted bonds, some with not a single coupon clipped, teaches objective skepticism. The stock market ticker tape from Black Thursday (October 24, 1929), the actual tape, is just as sobering. Historical cartoons, journals, calculation aids and equipment tell you things not found in textbooks.

On my last visit to the Museum, I saw a book

in the shop that provides a similar benefit without the trouble of a trip to New York. *The Origins of Value* (William Goetzmann and K. Geert Rouwenhorst, editors, Oxford University Press, 2005) features 20 essays illustrated by magnificent color photographs of historical financial documents. The authors include nine pure historians, five economic or financial historians, five economists or finance professors and two non-specialists.

At first glance, chapters like "Records from a

Seventh-Century Pawn Shop in China,” “Annuities in Early Modern Europe,” “The Rothschilds and the Financing of the Holy Alliance 1818-1822,” and “A Government Voucher from the Southern Song” seem less than exciting. There are probably more useful bits of information than knowing U’u, the doorman from KA.KA, owed 720 liters of barley to the Babylonian temple 4,500 years ago, as evidenced by a broken piece of clay with wedge marks in it (was KA.KA the hottest club in Babylon 2500 BCE? a clue may be that the same amount of barley was also owed by Engarzi, from the libation place). Paper with funny cut marks, notched and broken sticks, funerary dolls made from recycled pawn shop tickets; all are shown for your edification.

However, there is a deep, if quiet, fascination with seeing these documents along with essays by experts placing them in context. Some financial goals are ancient, although their nature evolved subtly over the millennia. Other modern financial concepts seem entirely out of place in these historical periods. Sometimes it seems as if we could easily do business with these long-dead traders, other times their concerns seem hopelessly archaic.

One could wish that the book was broader. The editors write “finance has three key foundations: the intertemporal transfer of value through time, the ability to contract on future outcomes, and the negotiability of claims.” That might satisfy an academic economist, but a financial practitioner would not leave out trading markets. It is sufficient for some financial purposes if securities exist and can be bought and sold, but the most dynamic part of finance occurs in active trading markets. Moreover the trading markets can exist without negotiable securities. This book concentrates on governments, banks and merchants using finance as a tool, there is little mention of financial specialists who do finance as an end in itself. I would love to see a companion volume with artifacts from the Athenian grain market, Marco Polo’s family’s central Asian trading post and medieval Champagne fair and Suze-la-Rousse.

It would also be nice to see material from West Africa and pre-Columbian America, where barter, gambling and gift exchange served impor-



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tant financial purposes. Some of the most important roots of finance predate money, or developed in parallel with money exchange economies. The editors get a bit patronizing when they write “the roots of finance in the ancient Near East, and its early development in China and central Asia, may come as a surprise.” Coins from Lydia/paper money from China/international finance from Silk Road caravan merchants is pretty common knowledge, covered in the first chapter of standard finance texts. *The Origins of Value* is a bit old-fashioned, nothing in it would surprise a financial historian of 50 years ago, and there has been enormous and exciting progress since then. This may not be important, because the ancient documents haven’t changed, nor have the basic facts of history. The book delivers some primary source material along with the expert commentary to make sense of it. The reader can interpret it as she pleases.

My last complaint concerns that material. None of the pictures have any indication of scale. That’s okay for a coffee table book, unpardonable for a serious academic effort. It doesn’t have to be unattractive; a small bar indicating a unit distance can be placed on the lower right hand of each picture. A table from the 1558 work *L’Arithmetique* is shown on page 141 with a compound interest table so filled with typos as to be useless (for example, the factor 12 years at four per cent interest is stated as 1.7650735 instead of 1.6010322, six years is shown as 1.2953190

instead of 1.2653190). This is an important point, it proves to my satisfaction that the tables were not meant to be used, and they were examples to illustrate the calculation. A student would have to produce his own table, check it against the text and be smart enough to know when he was right and the book was wrong. As long as I’m nitpicking, placing all notes as backnotes at the end of the book instead of footnotes on each page is inconvenient and suggests the authors do not really expect them to be read; and the illustration credits are shamefully concise, and omit the important information for amateurs of whether they are available for public viewing. The book is stunningly attractive, but someone decided that attractive trumped useful. True beauty is functional, not just eye-catching.

This is a book everyone in finance should study. There are books with more useful information (there may be no serious books with less useful information), but the essence of many of those books can be captured by a synopsis, or by studying a textbook written by someone who has read them. The value of this book requires personal perusal. You need a comfortable, well-lit place to read it (a library table is perfect, the book is too heavy for convenient lap or bed reading); and plenty of time to let the illustrations speak to you. The book may not make you smarter but it will deepen the knowledge you already have.