

Money as a driver of development of the modern world²

Abstract

This article seeks to highlight the connection between economics and politics through the role of money, which left traces and in earlier historical periods. It indicates to its various forms, but mainly on the same outcome and goal. Primarily it is started from the role and power of money in financing the wars, then the increasing tendency for better results and destructive power, and to the role of money in politics and the relationship between military and financial power. Money was created out of necessity, it has facilitated trade, but at the same time complicated relationships. Money is power, it is one of the ways to manifest the power of the global world. It can be said that the power of money is necessary the explanation of the modern world.

Keywords: *money, power, military power, taxation, public debt, economic policy, global power, globalization and democratization.*

Introduction

Modern society surrounded by a capitalist economy, in which everything is measured with money, is based on the unrestricted pursuit of financial gain. In our society, but also in others, the power of holding money is one of the major powers. For many, the power is the supreme value, to which all others are subordinated. Money as a symbol of a specific value, becomes a driving force for development or driver of the world. However, suffice it to say that money moves the world today and people because whatever happens, happens under the stimulation of money. Money is now considered a bearer of a better life. The

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² Book review: Niall Ferguson, *The Power of Money*, Belgrade: Official Gazette, 2012.

very value of money is as big as the man gives it, and considering the present situation in society it can be said that money is given an enormous value.

The subject of this paper is to analyze the book “Power of Money” by Niall Ferguson, who through this work sought to examine the relationship between economics and politics because this connection is the key to understanding the modern world. Ferguson launches four ideas or topics that each for themselves, but also together represent the different periods of the importance of money, its variation and the impact on the other segments of society. Firstly it begins with describing the financing of wars, showing how much power they produce. It points out just how destructive power is important, unquestioning how much it costs. It is very important to understand, first of all, why a man chooses war as a driving force in the creation and development of the country. Then it is important how financial burdens caused mostly by wars affect borrowing that gradually leads to falling to public debt that is getting harder and harder to return, which leads to the loads of future generations. It is important to establish what are these big goals that many aspire to, which sometimes can lead to long-term load of the state. Then it is important to analyze the relationship between economics and politics and as the main question to ask whether the success of the economy affects the success of the government or rather, whether the economic progress leads to the popularity of the government? On all these questions, it is important to give the adequate answers since the deepening of the analysis on the international level tends to by returning to the significance of the wars connect the military power with financial power. Another issue that extends and which is of importance for understanding the relation between globalization and democracy, is whether the economic growth leads to democracy? For all of the above it is important to add the importance and role of the United States as a great power and its impact on the rest of the world because on their example can best be understood the power of money.

This book has, throughout the entire Ferguson’s analysis emphasized the meaning of the four institutions that are the foundation of financial strength, namely: the bureaucracy that deals with the collection of taxes, then, the representative parliament, the national debt institutions and central banks. Ferguson calls them “square of power”.

1. Military power and taxes

The main impetus for the development of the country as the fiscal institution, until recently came from the war. It was considered that, from the earliest

history until the recent past, the war was the engine of the financial change. Even Herodotus said that war is the father of all things. However, it may be asked why a man chooses war and not peace? The answer is not simple. People are thinking beings, with tongue constructive thoughts, interactive beings with developed culture and therefore are governed by individual motives. Humans acts are the product of their own ideas and thoughts. However, those ideas are not only personal, they are a combination of political and cultural environment in which it is lived. As long as states consider war as something legitimate, its citizens can identify with that idea. The connection between war and finance was present until the recent past. Sometimes the cost of war had the greatest impact on the state budget and the finances for that cost had to be ensured at all costs.

It may be asked what was the main cause of pressure on military budgets? Many thought that it was the increasing participation of men in the military, but later it was found that those were the changes in the military technology. As technology has progressed, it had to be more technologically invested in military power because they all wanted to have the best-equipped army. For the price they did not ask because the main objective was to purchase new weapons that have greater and greater destructive power as well as to inflict as much damage. All changes in technology have enabled the army to become larger and more ready, and therefore their struggles were longer lasting. The fact is that over the time military spending in state finances varied. Government spending was always correlated with the war because the key combination of military success and internal stability was the product of the ability to raise such a large sum of money in a short period of time and with the least economic cost. Depending on whether the state is in the war, which was a key point, was determined the share of military spending compared to the national product.

When there is a comparison of past and present, in relation to military affairs, it can be said that at the present time, however, is improved the electronic communication and other technological developments that significantly simplified the warfare. What remains the same is the fact that the money must be found very quickly (either for mass armies or for sophisticated modern weapons) because in the past the main need was for war to be financed because it was a key driver in the creation of the state. However, why the war was a driving force in the creation of the state? Probably the reason was that war was the answer to resolve the conflict because when war comes is a sign that something is wrong. Also, the great powers exploited the wars in their favor in order to advance their economies as well as through providing opportunities for the geographical conquest of territory.

Ferguson cites an interesting statement³: “In this world, as one revolutionary wrote to another in the fateful 1789 “it can not be said that anything is certain except the death and taxes.” He explains it by the need for higher revenues to pay for the war or preparations for the war, and a significant portion of these revenues came from property owned by the state. So taxes were not inevitable, the government was able to rely on public property to provide income. This selling of the land in the medieval period today, as the author explains, has a twin in the “privatization” of public companies because it is the easiest to sell state assets to get the necessary money. The taxes are the simplest to impose where they are easy to follow, such as the tariffs on imports that have since ancient times been a source of income.

Taxes have become a major source of the state revenue. As an example, Ferguson states that the revolt against indirect taxes were a regular occurrence in the life of the early modern Europe⁴. It can be said that modern governments have learned something from the past, because the application of VAT has given the country a new form of indirect taxation which consumers are willing to pay. Throughout the history direct taxes could only be collected from the wealthier groups in society. The strategy for the collection of such taxes was to create services for their collection which is funded by the state so that it can be said that in this model there is a kind of representative offices in the government. It can be said that from ancient Athens, the link between taxation and participation in governance was a key location of democracy, although demos is differently defined. In democratic terms, decisions on taxation were made on the mass gatherings while undemocratic regimes wished more for sources of income independent of the approval of the public. It is important to specify that the representation in parliament of the wealthy was better than no representation at all in the absolute monarchy. Many theorists of politics represent, Ferguson explains, that the representative institutions are superior in the revenue collection than the absolute monarchy. However, one should not lose sight that tax can be collected and without the consent of Parliament as was the case in fascist and communist regimes after the World War II. In order to get the job well done, it was thought, that it is required an army of tax officers or bureaucracy.

The state has long been able to secure parts of the national income by taxation so that the phenomenon is not unique only for the 20th century. As an example, Ferguson states the rise of Britain to the great powers which also represented the growth of the tax burden. Historically the main cause of increased government spending and taxation was war. As already noted the link between the war and funding was present until the recent past. Although sometimes the

³ Niall Ferguson, *The Power of Money*, Belgrade: Official Gazette, 2012. 77.

⁴ *The Same*, pp. 86.S

cost of war had the greatest impact on the state budget, in the second half of the 20th century, this role was appropriated by the cost of social care⁵.

2. From big goals toward the public debt

As already mentioned, the money for the war must have been provided at all costs because the victory and power were the main guidelines. In order to mitigate the costs of the war it was necessary to maintain the balance system of the government loans. History of the public debt is of more recent origin, because it is known that neither the old Greece nor the ancient Rome had the public debt. The huge costs that have been caused by the war required a different techniques of government borrowing. Ferguson explains that the system of selling bonds by direct enrollment, during the First World War, was everywhere accepted because the purchase of bonds of the war loan was considered a patriotic duty. It is interesting to point out the author's example in respect of this patriotic duty: „One German poster from 1917 shows a naval officer who explains to soldier, as they watch the enemy ship sinking: Here is how your money helps you to fight. Converted into a submarine, it keeps away from you the enemy grenades. So subscribe to the War Bonds!“⁶ However, it is important to note that, while wars were taking place, it was increasingly difficult to convince people to invest money in bonds of the war loans. Ferguson explains that in the century after the Glorious Revolution, all the great powers tended to spend more than they had collected in the form of taxes. As an example, he cites the high level of consumption of Britain during the wars in the 18th century, financed by loans, which can be said that these were the wars on credit.

As for the national debt there were as many negative as well as positive considerations. The author mentions Richard's explanation of the national debt as “one of the most terrible penance...ever invented to hit the people...too heavy a burden which deadens every effort.”⁷ It may be noted that and today the national debt among the people is causing the great dissatisfaction. Primarily because with the interest and debt are actually burdened citizens through taxes, and when the debt repayment would be delayed it would be followed by interest that would citizens pay in the form of the tax increase. As a counterargument,

⁵ This term is related to the rise of the welfare state under what Ferguson thinks that if under the state of social welfare is thought on public spending designed to reduce the inequality of income, by direct benefits to those who have low wages or by the provision of services to the poor below the market prices, then it is no modern invention.

⁶ Niall Ferguson, *The Power of Money*, Belgrade: Official Gazette, 2012. 151

⁷ *The Same*, pp. 163.

and the positive effect of debt, according to Isaac de Pinto's assertion that the national debt can be a positive stimulus to growth because, as he states, the debts, because they never arrive at the payment and do not have time to be feared, it is as they do not exist. He believed that every new loan creates the new capital.

The most important thing is to ask the question how, that is, in what ways is the state struggling with the huge debts? In response to the question are listed several ways such as debt repayment, conversion, capital taxes and others. Although there are covert ways such as a devaluation of the unit of measure in which the debt is denominated. Inflation reduces the real value of government debt if it is in local currency. It is important to mention the central bank as an institution for the debt management and monetary policy. Numerous crises and wars led to the subjugation of the central banks to the governments. One can say that the debts are certainly burden for the state, because in order for them to be returned the states are able to issue bonds, increase taxes, or even to sell their property.

Great goals of the countries set for themselves, trying to achieve them partly through wars, manifested themselves in the form of the most advanced economy, gaining power and status of a world force. However, to accomplish all this, it is necessary financing which often could not pay the big goals of strongman which led to the increasing responsibilities and "falling" into the public debt. If the state was kept occupied with solving its internal crisis that would be even more difficult for the repayment of debts. The most important measure of public debt is the relationship between the current and future tax burden because it is very important to take into account the financial burden on the next generations which is rarely thought of in the present.

3. Correlation between economics and politics

Public debts leave their consequences and on the transfer of resources between different generations because it is known that when government is borrowing it does not care about reducing spending or increasing taxes which are subject to future generations. This is very important because generational conflicts, may represent a key factor for the future of public finances. Suffice to point out the fact that generations are connected by inheritance, and that future generations will have no savings to pay the debt of the government so they will have to do it from their own resources. This redistribution between generations is not a new invention. There have always been present relations of the old to the young and the unborn, but the essential difference is that the old are eligible to vote in contrast to the young and the unborn. Therefore, one may ask how ob-

jective conflict of interests between generations can become subjective political conflicts.⁸ Regardless of the fact that one generation is living at the expense of the other, the fact is that politicians are not able to see beyond the next election and therefore they will not support the policy in the interests of “the unborn” if they would have to sacrifice the current voters.

Correlation between the economy and the government’s popularity has become the fundamental, unprovable, truth of modern politics. The question that usually sets here, which is of crucial importance is whether the success of the economy affects the success of the government or whether the economic progress leads to the popularity of the government? With rational thinking can be said that it is very likely that a good economy is the key to the success of a government because when people, have met the standard of living, there is no need to complain. Ferguson cites as an example the President Clinton, who was indicted for perjury and obstruction of the administration of justice. In fact, the most Americans believed that Clinton is guilty, but very few of them wanted to repeal him as the president. The reason for this statement is that no president will be removed when the economy is successful because people vote in elections with their wallet. On the other hand, when we look deeper into it, it can also be assumed that it is a form of manipulation of government. It has been suggested that the parties formulate policies in order to gain election, and they do not gain election to formulate policy. This was the basis of the theory of William Nordhaus on the “political business cycle”, which signaled that the government would seek to manipulate the economy so that the economic cycle comes to a climax shortly before the new elections.⁹

4. The power on the global level

James Carville noted that the bond market rules the world because he considered that, in this way everyone can be intimidated. The growth of the bond market is viewed in the context of a broader process of financial globalization. Capital flows over the last 20 years have been increased, as well as the international bank loans. Financial globalization has progressed significantly in recent decades and has brought significant benefits, but also the crisis. From an economic point of view, the export of capital is providing the higher returns than those that would be realized by domestic investment. However, in the Middle Ages, to merchants would not be approved loans if there would not

⁸ *The Same*, pp. 252.

⁹ *The Same*, pp. 266.

be any assumptions that they will bring more revenue than the internal stores. It is important to note that lending money outside the country can bring the risk that unless the suspension of payments is that the exchange rates of the debtor and the creditor, can unexpectedly change to the detriment of one party. Loans were becoming very common, between the 1818 and the 1832 in London were placed 26 loans on behalf of foreign governments.¹⁰ Nathan Rothschild claimed that each loan must be guaranteed by a mortgage. Measurements from the 1914 to the 1918, showed that this period represented the pinnacle of the international loans, and America was then the world's banker. Signs of the crisis have already been monitored. Capital flows were, between the two wars, quickly changed and with devastating consequences. The withdrawal of the capital caused a recession that in most countries began in mid-20s. All this indicated that financial globalization has indeed collapsed.

If we start from the fact that globalization is caused by a combination of forces such as economics, politics and technology, we can say that between the past and the present there are many differences. Some of them are that tariff barriers are lower than they used to be, and that the direct investment are today increased due to the growth of the multinational companies, and it is important that the information flows are now much faster and bigger. One can say that, perhaps, the key difference between the past and the present, in terms of the great powers, the one that Britain was exporting capital, and the United States are today in the role of importers and thus they used their dominance on the international bond markets.

The question that is meaningful to ask, and which is of importance for understanding the relation between globalization and democracy, is whether the economic growth leads to democratization, or vice versa? Almost accepted doctrine is that democracy and economic progress are mutually reinforcing. Mansur Olson was of the opinion that democratic systems more easily lead to the creation of wealth than the undemocratic ones. Amartya Sen has also supported the view that democracy is economically beneficial. He argued that freedom is desirable and that it has an economic justification. However, despite this we should not forget that China, Singapore and South Korea experienced the rapid economic progress even without democracy. Alexis de Tocqueville thinking about the advantages and disadvantages of democracy in America, concluded that democracy is the future and that it works in America.

From the above mentioned, it can be said that the economy and democracy are the dependent variables. Very challenged property of the state, which is claimed to affect the economics and political development, is the ethnic composition. The question that usually arises is to which extent the ethnic homogene-

¹⁰ *The Same*, pp. 311.

ity is a necessary condition for democracy? Freedom House's survey suggested that countries without a dominant ethnic majority are less successful in establishing democratic societies than ethnically homogeneous countries. Homogeneous countries are easier to align the interests and goals because they have more similar thinking than the ethnic inhomogeneous countries. There are known cases of disintegration of the multinational states into the homogeneous states, as was the case with Yugoslavia. However, one has to wonder who actually dictates those decays, to whom such a state bothers? Rather, who claims the right to have that much power to dictate the links between the economy, democracy and even ethnic composition?

These questions can also be answered with another question which asks Ferguson. He asks why the United States are so powerful that is why the United States are not more powerful? It is known that the US has the main goal to maintain a good economy and that investment in military power tends to acquire and preserve wealth, with the aim of increasing their power and influence to the rest of the world. However, it is also known that the US spends too much on the military research and development in comparison with Germany and Japan, which are more focused on the civilian development and that promise significant economic supremacy. Kennedy had a good point noticing that if the too much resources are turned towards the military objectives, and not towards the creation of wealth, then it can lead to the weakening of national power over the long term. The Great Powers, with excessive spending on security leave less room for investment in production and thus lead to a slowing economy. In this regard, it is important to limit spending on a defense, to avoid economic, and military decline. It is important to continue to wonder what is the relationship between the war and democracy or whether democracy keeps us away from the wars? For democracy based on the past, became clear that the war was not worth it because the economic costs will always overcome the benefits. However, it can be said that the countries that are at an early stage of democratization are more prone to warfare. It is known that people have a fear of something new and in that respect for the different changes they are cautious because they do not know what to expect and are prepared to defend themselves in various ways.

In order to understand many of the questions which were asked and which will be asked it is important to devote more attention to the US as the most powerful economic, technological and military power in the world. You can often hear that America is the "world police". This role it has afforded to itself as the right to military intervention in the internal affairs of a country to protect the persecuted minorities. However, Ferguson asks whether the United States can afford this kind of role? He as a way to respond to this question begins with determining how much it costed in 1999 to expel the Serbs from Kosovo and

Albanians to return to it. In response he notes, not much. When all is calculated, the costs of assistance to refugees, the costs of defense of the province, the costs of occupying and many more, can be summarized that the total cost of the war was 7.7 billion pounds. Ferguson, in addition to the above calculations, raises the question of what kept the US and its allies to use ground forces against the army rather than bomb the civilians? He further notes that this was obviously not the financial cost that they could afford, but that American power is hampered by aversion towards the people's lives. He believes that Americans are not willing to sacrifice any human life in wars regardless of the purpose. The bombing of Serbian civilians was considered strategy to reduce the risk to American soldiers. For today's democracy every military death is unacceptable. However, one may wonder whether such a statement in practice is quite different or whether the background is hiding something else entirely?

Conclusion

The role of money in the world was always visible and manifested the power, just as throughout the history and centuries money changed its form, but not the value. Money is the visible power. Whoever owns it automatically has the power, the only difference is whether the person who owns the money wants to use the power. Money is necessarily connected with the functioning of the state. This is because it always expressed as today expresses the identity of each state: character, historical, cultural and other community functions. Money showed its power since the earliest history and through the wars since that is where power of money was manifested the most. Those who had the money for the best equipped army had a better chance of winning or greater chance to demonstrate their destructive power, which does not ask for the price. However, money has a strange effect on people and very often we must take care that it does not overpower the interests of the state and politics, because if that happens then the pursuit of money does not have the control which later can lead to indebtedness, as Ferguson explains in an interesting way. This is an important fact because when the state has trouble paying debts that may negatively impact on economic development, and in worse cases it can lead to social problems and unrest. Therefore, it is important to control the flow of money and to keep its power under control. Control of the money and its power is important because it may lead to financial crises that are very common and characteristic for the modern world. The financial crisis is highly variable because to the most it brings misery, and to a few more wealth and in that sphere, money once again shows its power. It is very important in the conduct of economic policy to pay

attention to politics of the public debt and from it to draw a positive connotations for economic development. It is important to take care that the power of money in man does not push those moral and human values. This primarily refers to the transfer of the debt on the future generations about what the current government and their policies are not thinking or rather do not want to think because it is in their interest to obtain favor of the current generations, and not the future ones of which currently they have no use. One aspect of the political manipulation of the money is, and that immediately before achieving their goals, the economy is functioning well and is able to meet the standards of the citizens which shows what power money has in terms of better economic impacts.

The power of money has long ago moved on a global level, and how could it not when it is known that we live in a consumer society, and that money here has a very important role. With globalization money has received even more on their power and influence on the great powers for which it is the main guiding principle. Global power of the great forces, specifically in the United States, is manifested by the influence in the whole world. However, we can ask the question what allows a country to become a world power? Is it the money? With latent weighing we can see that the US does not manifest its influence in the form of the economic power, but its power is actually a military power. As already discussed military power is attained by money or funding the military and investing in technology of military equipment, it is moving towards the greater power from which the rest of the world dreads. The money today is dictating the rules and the global world order, and has tremendous value because the man gave it that and only man can reduce that influence and power, but the only question is if he is able to fight against his own interests. The power of money, of which the real supreme deity is made, today more than ever mastered the world and has become the main driver of almost everything. However, one must not forget that our ideas and knowledge are the greatest power and we can not allow to become a slave to the idea of money, but the money must serve us and our ideas.