Massimo Fornasari, *La banca, la borsa, lo Stato. Una storia della finanza (secoli XIII-XXI)*, G. Giappichelli, Turin, 2017, pp. 224.

The 2008 financial crisis made manifest the enormous impact of finance on the real economy, and we are still feeling the consequences. The disastrous repercussions of the crash tended to give finance a totally negative image. However, looking back and examining its origins and evolution over the centuries, the positive and propulsive role of finance in industrialization becomes equally unquestionable.

Massimo Fornasari's book (*Bank, stock market and state. A history of finance from the 13th to the 21st century*) reconstructs the development of finance from its remote beginnings in the Middle Ages down to modern times.

The book, released ten years after the Northern Rock collapse, which anticipated the more devastating failure of Lehman Brothers, is intended to furnish readers with a better understanding of the multifaceted nature of finance, its strengths and its weaknesses. The very long-run approach reveals continuities and changes and identifies the points of rupture that shaped the different financial systems (e.g. market-oriented, bank-oriented and government-oriented systems, formal and informal credit markets).

The book begins with Europe's exceptional demographic and economic expansion in the late Middle Ages, which led to the so-called "commercial revolution" (Chapter 1). The extraordinary increase in networks of trade was made possible by the creation of new financial instruments and institutions, which overcame the shortage of money and thus enabled credit markets to grow and develop. The Italian city-states in particular were the groundbreakers, devising innovative techniques that helped reduce risks and lower transaction costs, thus facilitating international business. Pioneering instruments were created by the Italian republics of Venice, Genoa and Florence to finance the increasing public debt caused by protracted warfare. Government debt was transformed from floating to consolidated, and the first bond markets came into being. The creation of the bill of exchange, of the *censi* (and in 1569 *censi consignativi*), public banks (*banchi de scripta*), pawnshops (*monti di pietà*) and the accounting revolution with double-entry bookkeeping laid the basis of modern finance.

In the seventeenth century financial primacy shifted to the Low Countries, which with the *Vereenigde Oostische Compagnie* created the first modern joint-stock company. According to the author, Italy had seen the precursors of such institutions, i.e. the Italian medieval partnerships created by the maritime republics, which to finance long-

distance trade had divided ship ownership into parts (shares). Another forerunner of such capital companies was the Genoese *Casa di San Giorgio* (1407).

However, the capacity of the Dutch VOC and the English East India Company at the beginning of the seventeenth century to mobilize vast amounts of capital was unprecedented (Chapters 2-3). Shares became transferable and tradable, giving rise to the first stock market. The financial markets started their exponential growth, trading both shares and public debt. The Amsterdam and London stock exchanges, inspired by the Antwerp bourse, became the main European financial centers, attracting not only regular investors but also speculators and gamblers.

Speculative behavior began to spread, and very shortly speculative bubbles arose. The subjects of the speculation were companies that depended one way or another on transoceanic trade. Despite their numerous differences, the interconnections and similarities between the South Sea Bubble and the Mississippi Bubble inevitably make them appear as twins. But the former was actually an episode of corruption and fraud, the latter the failure of the monetarist theory of a Scottish economist, John Law, and of the *système* he had created. But the consequences of these two episodes, not the only bubbles of the eighteenth century but surely the worst, were radically diverse. Whereas France regressed from the financial point of view after Law's failure, interrupting foreign investments and focusing domestic finance towards the state and the agricultural sector – which may be an explanation for France's late industrial development – England intervened by issuing the Bubble Act (1720), which far from prohibiting joint-stock companies, limited their formation to those authorized by the Parliament. The financial revolution had already started in England. Structural changes opened the way to modernization: the creation of Parliament, the introduction of the Bill of Rights, the nationalization of the fiscal system, the creation of promissory notes, the foundation of the Bank of England (1694), the emergence of the London Stock Exchange and the introduction

of the gold standard were just some of the revolutionary institutional and financial innovations that enabled that country – the first in Europe or in the world – to carry out the industrial revolution and embark on a period of irreversible economic growth.

The impact of the modern financial systems at the time of the second industrialization was even greater and broader (Chapter 4). The rise and spread of the gold standard stabilized international commercial relationships, facilitated capital movements and investment by the industrial countries in the colonies and developing countries. After World War I stock market euphoria reached the boiling point. The New York Stock Exchange replaced London as the world financial centre. Easy credit, economic prosperity and the presence of new, unscrupulous intermediaries (investment trusts and brokers) led to the crash of 1929.

This crisis represented the turning point, away from *laissez-faire* to greater state intervention (Chapter 5). The gold exchange standard dissolved, introducing further uncertainty in international economic relationships, to which the creation of the Bank for International Settlements was not an effective solution. Britain's financial strength proved to be overvalued, and it was forced to devaluate sterling, with severe repercussions on the industrial sector, which had been in the process of consolidation and organizational innovation. The United States recovered only thanks to the abandonment of the gold exchange standard and the New Deal.

The crisis also spread throughout Europe. In Germany the entire banking system was swept away and then concentrated into the "big three" (DB, Dresdner and Commerzbank) and regulated (1934, the Reichsbank Act). In Japan, the banks had to support the monetary policy of the government (based on devaluation, low interest rates and public spending) by buying state bonds. At the same time there was increasing concentration both in banking and among the *zaibatsu*. In Italy the crisis forced a reorganization of the banking sector, creating the Istituto Mobiliare Italiano (IMI) in 1931 and the Institute for

Industrial Reconstruction (IRI) in 1933. The latter took over industrial stakeholdings from the distressed universal banks Comit and Credit, making possible the 1936 banking reform, which ended universal banking in Italy. The creation of IRI and the reform finally cut the unnatural and distorted ties between banking and industry.

In 1944 the representatives of the forty-four Allied nations against the Axis gathered at Bretton Woods in New Hampshire to discuss the future shape of the world economic system, once the Second World War was over. They produced a compromise between the Keynes Plan and the White Plan. The agreement created the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), known as the World Bank. These US-oriented organizations, combined with the Marshall Plan for Europe, made for the undisputed leadership of US corporations for years after the end of the war. The Bretton Woods system was definitively abandoned in 1971 when President Richard Nixon declared the end of the dollar-gold standard. The subsequent oil crisis in 1973 ended the "monetary quiet" that had prevailed since the war, and in 1975 the six most industrialized countries met at a summit to initiate a process of deregulation and globalization, which were to serve as the foundations for the international financial system of the decades to come.

The volume concludes with the 2008 crisis, triggered by credit institutions' subprime mortgage lending, variable rate loans to borrowers with poor credit ratings. The subprime loans were then securitized into Mortgage-Backed Securities(MBSs) and Collateralized Debt Obligations (CDOs), whose value increased, with the endorsement of the rating agencies. As soon as the Federal Reserve raised interest rates, these mortgages began to default, agencies like Freddie Mac and Fannie Mae could not sell properties at their mortgage values, and the CDOs began to lose value. This caused the collapse of one of the biggest US investment banks, Lehman Brothers, which had invested very substantial assets in these operations. Its failure, as we know, brought one of the most severe financial crises since the Depression.

Fornasari's work offers a thorough analysis of the history of finance and of money, from the emergence of the first modern instruments and institutions in medieval times to the present. This long-run and interdisciplinary perspective on the development of financial systems and credit markets affords a better understanding of the complex nature of finance, its propulsive role in encouraging developing economies, and also the detrimental effects it can produce when it is motivated by speculation and greed.

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