

The Early History of Financial Economics, 1478–1776: From Commercial Arithmetic to Life Annuities and Joint Stocks. *By Geoffrey Poitras*. Cheltenham, U.K.: Elgar, 2000. x + 522pp. Index, figures, illustrations, references, tables. Cloth, \$120.00. ISBN 1-840-64455-9.

Reviewed by R. H. Parker

The first issue of the *Journal of Financial Economics* was published only in 1974. Financial economics is therefore a newcomer as an academic discipline. “[It] is a modern marriage of two distinct fields, Finance and Economics,” states Geoffrey Poitras on page one of this book, which nevertheless claims to be “the” (not “a”) history of financial economics from 1478 to 1776. A new discipline can only have a history stretching back to 1478 if that history is interpreted to mean the chronicle of those subjects that preceded it and are perhaps now argued to be subsumed within it. Many brash young financial economists show little interest in history, but some are beginning to feel the need for historical respectability. However, writing a history of financial economics, so defined, is, as Poitras recognizes, like opening “an intellectual Pandora’s box” (p. 2). What emerges in this book are a number of loosely related topics, including commercial and financial practices (especially bills of exchange); the scholastic analysis of usury; commercial arithmetic; simple and compound interest; the valuation of life annuities; the analysis of joint stocks; derivative securities; manias, manipulations, and institutional failures; interest rates and public credit; and maritime and life insurance. On all these topics, Poitras has something interesting to say, but his linking of the various chapters into the history of a discipline called “financial economics” is not wholly convincing, and many of the topics could be, and have been, regarded equally cogently as part of the history of other subjects.

Poitras is aware of the fluidity of intellectual boundaries and in particular recognizes the shared intellectual history of financial economics and accounting (p. 136), although he displays rather a weak knowledge of the accounting-history literature (for example, on page 117 he refers to the accounting historian W. Green [1930] as a “modern” writer on the treatise of Pacioli). This is a pity, as the historical development of both finance and accounting differs markedly from that of economics, as many advances in both techniques and concepts arose in practice and were sometimes regarded as trade secrets, making them difficult to ascribe to named authors in a continuing literature. Nevertheless, although he pays tribute to Anonymous, Poitras is good on personalities, noting a number of “truly remarkable individuals populating the early history of financial economics” (p. 322). These include Sir Josiah Child (1630–1699), John Law (1671–1721), Richard Cantillon (1677–1734), and Richard Price (1723–1791).

Poitras disclaims any ambition to write a book based on new primary sources (p. 495), but, accounting history apart, he demonstrates a good command of the secondary sources and shares these with his readers. For all chapters except the first there is a bibliographic note. The list of references is comprehensive and extensive, although perhaps experts in particular fields will find gaps. He does not ignore literary evidence, quoting extensively from Shakespeare's *Merchant of Venice* (1600) and Swift's little-known poem "The Bubble" (1721). There are several fascinating asides, including a discussion (pp. 250–2) of a sixteenth-century version of technical analysis based on astrology. Poitras argues plausibly that technical analysts and astrologers share several characteristics. Professors in business schools will appreciate a quotation from Aristotle's *Politics* in the context of options trading: "it is easy for philosophers to become rich if they so desire, though it is not the business they are really about" (p. 341).

The book contains several reminders that in finance there is little new under the sun. To an accountant, the discussion in the chapter on usury about ways to conceal the charging of interest is strongly reminiscent of present-day attempts to hide debt off balance sheet. Students of finance will recognize many of the twelve tricks of market manipulation that Joseph de la Vega set out in his *Confusion de Confusiones* of 1688 (pp. 384–90).

By defining financial economics to include commercial arithmetic, Poitras can trace back its literature to 1478, the date of the first printed commercial arithmetic (published anonymously in Treviso, near Venice) and predating by sixteen years Pacioli's *Summa* (1494), which covered, among many other mathematical topics, both double-entry accounting and commercial arithmetic. The next century saw the publication of several other books on these topics. Pacioli discusses compound interest but does not include tables (essential for commercial applications by non-mathematicians), which did not appear in print until the mid-sixteenth century. By the seventeenth century, compound interest had ceased to be of interest to mathematicians, and commercial arithmetic had become the preserve of accountants and merchants. Compound interest had also become more socially acceptable, especially in the Protestant countries of northern Europe.

Poitras's terminal date of 1776 refers, of course, to Adam Smith's *Wealth of Nations*. Poitras does not have a high opinion of Smith's contribution to financial economics. He finds little in Smith's classic work that is of direct relevance (p. 317). He regards Smith's analysis of the South Sea Bubble and John Law's Mississippi scheme as "too cursory and sometimes confusing" (p. 298), and his views on stockjobbing as "pedestrian" (p. 319). Poitras is generally at pains to stress that the origins of financial economics "lie well outside the conventional

boundaries of the history of economic thought” and that “the genealogy of financial economics is decidedly different from conventional economics” (pp. 482–3).

The writing style is workmanlike rather than elegant, with only occasional lapses into flat-footed sentences like the following: “This valuation process is impacted by an agency problem brought on, at least partly, by the asymmetric situation inherent in the separation of ownership and control in the corporation” (p. 310). There are one or two typos. On successive pages (300–1), the Act of Union of England and Scotland is dated 1706 instead of 1707, and Louis IV rather than Louis XIV is said to have died in 1715.

Although not every reader will be convinced that the history of financial economics stretches back as far as 1478, or even 1776, this is a book that will be of interest to historians of many subjects, and it can be welcomed as such.

R. H. Parker is emeritus professor of accounting at the University of Exeter, England. He is the author of numerous books and articles, more particularly on accounting history and international accounting. He was the editor for many years of Accounting and Business Research, published by the Institute of Chartered Accountants in England and Wales.