

THE MONEY MARKET OF TO-MORROW.

BY LINDLEY M. KEASBEY.

OVER the prospects of planting arts and learning in America, Bishop Berkeley became poetically inspired. Probably because these prospects are so pleasing, his poem is become popular in this country, especially these oft-quoted lines:

“Westward the course of empire takes its way;
The four first acts already past,
A fifth shall close the drama with the day;
Time’s noblest offspring is the last.”

It’s theatrical at all events, this drama of western civilization in five acts! At the end of the fourth act the European old-folks retire; at the beginning of the fifth time’s noblest offspring enters, thereupon the action quickens toward its climax,—the apotheosis of America! There is breadth of vision also on the urbane bishop’s part, extending, you will find on further inquiry, from the course of empire in the center, to psycho-physiological investigations on the one side, and to the efficacy of tar-water on the other. Concerning his technique however there is not so much to be said. Bishop Berkeley was an idealistic philosopher, not a practical economist. But in determining the course of empire, economic elements must of necessity be taken into account. Because, as another English philosopher, James Harrington, a predecessor of Bishop Berkeley, put it: “Empire follows the balance of property.”

And the balance of property is in its turn determined by the balance of trade. So, in order to understand the situation, you will have to descend from the heights of philosophical speculation to the depths of economic analysis. Ever since the exchange system was established, and buying and selling began, property of all kinds has become more and more mobilized in money. Money you should think of in this connection as a fluid fund of purchasing power, embodied in coin and credit instruments. In obe-

dience to the law of gravity, this fluid fund of purchasing power seeks its level, like other fluid funds. The only difference is, in this case the level is determined by the balance of trade. What regulates and adjusts the balance of trade I expect to show you in the course of this story; suffice it at this juncture to say: As the balance of trade tips in favor of any country, money flows in from all sides, and coin and credit accumulate in this so-called center of exchange. Such accumulation stimulates economic enterprises, and these are followed by financial operations, which proceed outward in all directions from the center of exchange. These operations in their turn accord financial control, whence in last analysis political power is derived. Thus Harrington hit it off accurately enough in his single statement: Empire follows the balance of property. Still, to follow the course of his shot, you should think first of property as mobilized in money, and then determine the balance of trade. This point reached, you will arrive at the center of exchange, whence financial control and political power proceed. There is nothing in the least poetical, or even idealistic, in all this; nevertheless it is just these prosaic factors—the altering balance of trade, the shifting center of exchange, and the extension of financial control—that account for the accumulation of property and determine the course of empire withal.

Thus both Berkeley and Harrington appear to be correct. As the accumulation of property has proceeded, so also has the course of empire taken its way toward the west. Why? Because the balance of trade has been preponderantly in this direction. Therefore you can follow the shifting center of exchange, and likewise the corresponding extension of financial control, from Babylon to Tyre and Sidon, Corinth and Athens, Alexandria, and westward across the Mediterranean to Rome. Whereupon you arrive at an exception. At this juncture the balance of trade turned against the Occident and dipped toward the Orient again. Constantinople became accordingly the center of exchange, and for several centuries financial control and political power proceeded from the Eastern Empire. Is this such an exception as to prove the rule? It seems to me so, for I foresee just such another reversal of the established procedure before us to-day, accompanied by a corresponding shifting of the center of exchange. But this is anticipating.

Let us leave the ancient world and start afresh from the Middle Ages. The crusades had the effect of turning the balance of trade once more toward the west, with the result that the center of exchange shifted in the selfsame direction,—from Constantinople

to Venice and Genoa, up the Danube and down the Rhine, to Hamburg and to Antwerp and Amsterdam on the North Sea shores. In accordance with the aforesaid procedure, financial control and political power followed suit. Then came the voyages of the fifteenth century and the subsequent oversea conquests. These had the effect of tipping the balance of trade still further toward the west,—in favor of England finally. Purchasing power accumulated accordingly in the British Isles, and from England as the center of exchange financial control extended outward in all directions across the seas. The course of empire kept pace with this procedure, so such is the state and extent of British imperialism to-day.

And yet, if I read aright some recent statistical handwriting on the ancient historical wall, in a few short months striking changes are destined to occur. There are indications of another alteration in the balance of trade, not in favor of the Occident as heretofore, but in favor of the Orient again. If so, the center of exchange should shift, not from London across the Atlantic, as is so confidently expected, but from London across the Channel to Berlin, I suppose. Should such a shifting occur, financial control and political power would follow suit as of old; whereupon British imperialism would decline and German imperialism approach the apogee of its career. All of this is out of focus with Bishop Berkeley's philosophical vision, but quite in accordance with the economic factors involved. Furthermore, these changes that I foresee can be predicted with considerable accuracy, I believe, by the use of an economic key which explains the complexity of the commercial code. History has handed us this key: *That which is recently written is a continuation of, and consequently in accordance with, that which is already recorded.* The code thus explained is not so complicated, consisting simply of three interconnected terms: *the balance of trade, the center of exchange, and the age-old antithesis between exploitation and production.*

By either of these means—exploitation or production—a favorable balance of trade can be acquired; but not by either of these means—exploitation or production—can such favorable balance be secured. Think first of exploitation and its several sorts,—forceful, feudal, and financial, the exploitation of natural resources and the exploitation of inferior folk; it is easy to see how a favorable balance can be acquired by such exploitative means. But in order to secure such favorable balance, productive activities are required, along the lines of intensive agriculture, the arts and crafts, and industry and commerce besides; for such activities produce an ex-

portable surplus, in the form of fine products and finished goods; and it is chiefly through the exportation of these small and expensive commodities, in exchange for food-stuffs and raw materials which are both bulky and cheap, that a favorable balance of trade is secured. To be convinced of this you have only to consider some significant examples in the order of their historical development.

Babylon not only acquired but also secured her favorable balance by productive means, so also Tyre and Sidon, and Corinth and Athens. These ancient centers of civilization undertook intensive agriculture and developed the arts and crafts. The surplus derived from these activities they exported in their own ships to the Indian and Mediterranean markets. Through such productive procedure these classic city states secured for themselves a favorable balance of trade, and each in its historical turn came to constitute in consequence one of the westerly-shifting centers of exchange. Like the British empire of our day, the Alexandrine empire of old endeavored to combine both exploitative and productive means, with just about the same success to start with and similar disaster in the end; whereas Rome, like the Spanish empire of the seventeenth century, confined herself from the first, and continued to confine herself, exclusively to exploitation both of natural resources and of inferior folk—which exploitation was in first instance forceful, and finally financial in character. With what result? The inevitable when an economic system is out of accord with the commercial code. In the end Rome lost the favorable balance she had acquired by exploitation, but failed through production to secure. If, instead of persisting in their policy of exploitation, the Romans had gone over into production, undertaken intensive agriculture, and manufactured finished products for export sale, they would then undoubtedly have secured for many more centuries their extraordinarily favorable balance of trade. As it was, the huge sums of gold and silver, accumulated in Rome through forceful and financial exploitation, flowed out along the Mediterranean trade routes toward the productive areas of the East, in an ever-swelling stream, to pay for the finely finished products exploitative imperialism was unable to provide. Rather than read the handwriting on the wall, Constantine saw a sign in the sky, *in hoc signo vinces*, which economically, if somewhat facetiously, interpreted would seem to signify: "Emperor, pack your political kit and trek for the center of exchange." This, at any rate, is precisely what the emperor did, because the balance of trade was then about

the Bosphorus. And after this, for centuries, the emperor's eponymic city continued to constitute the center of finance and exchange. All of which is extremely significant to those of us who are endeavoring to decipher the recent handwriting on the ancient historical wall.

While the East was thus engaged in productive activities centering around Constantinople, the West was given over again to exploitation, on the part of European barbarians, which exploitation was first forceful, then feudal in character. During all these dark ages in Europe the only productive activities of any consequence were those carried on by the church. Then came the crusades, which extended Western exploitation over the East again, to include all the Levant, and ultimately Constantinople itself. Thus the exploitative West found itself once more in contact with the productive activities of the East and with the center of exchange. At this favorable juncture the Renaissance Italians showed themselves wiser than their Roman predecessors; for, instead of pursuing the exploitative policy of the West, they imitated the productive activities of the East. The example thus set by the Italian cities was followed by their Teutonic successors, the Swabian and Rhenish Confederacies, the Hanseatic League, and finally the United Netherlands. Thus, through the productive activities of these Italian and Teutonic peoples, intensive agriculture, the arts and crafts, industry and commerce were extended from the eastern to the western Mediterranean, up the Danube and down the Rhine, and along the Baltic coast lines to the North Sea shores. In this way the balance of trade which the crusaders had acquired by exploitation was secured through production, and the center of exchange shifted accordingly, from Constantinople to Venice and Genoa, thence to Hamburg and Lübeck, and finally to Antwerp and Amsterdam.

Nevertheless, and all the while, exploitation proceeded as before; only in altogether different directions, and on a very much larger scale,—this because of the voyages of discovery and the subsequent oversea conquests, which opened up for European exploitation the Far West on the one side and the Far East on the other. Owing to their geographical position the Spaniards were the first to enter these immensely enlarged fields. Like their Roman predecessors, who were warriors at the outset and usurers in the end, the Spanish conquerors and inquisitors confined themselves exclusively to exploitation. Beginning with the productive activities of the Moors in the Iberian peninsula, such exploitation on the Spaniards' part extended over the Atlantic to include the natural

resources and accumulated treasure of the Aztecs and Incas of ancient America, and reached its relentless extreme over the agriculture and industry of the United Netherlands. It was through such forceful exploitation that Spain acquired temporarily her favorable balance of trade, and for a short space of time Cadiz competed with Amsterdam as the center of finance and exchange.

At this historical stage in the age-old antithesis England entered in, as an exploiter to begin with, but as a producer by the way. In which respect the British empire of our day is like the Alexandrine empire of old,—based upon exploitation but built up by production, built up however only to a limited extent, and in such a restricted way, that production is confined to the tight little island, whereas exploitation is extended across all the seas.

Considering such exploitation on Great Britain's part, you will find it has proceeded along the same old lines, extending from forceful, through feudal, to financial exploitation, and including not only the exploitation of natural resources but also the exploitation of inferior folk. Natural resources are unable to resist, they can only revenge themselves through diminishing returns; however there are inferior folk to be reckoned with, and opposing powers besides. In this case inferior folk resisted British exploitation to the best of their ability, witness at home the Irish, and the Indians and others abroad. Opposing powers also presented such obstacles as they were able to on all sides,—Russia on the east, the United States on the west, the African republics on the south, to say nothing of smaller states here and there. Nevertheless, in spite of internal resistance and external opposition, British exploitative imperialism prevailed from the sixteenth century on, and with such success that by the beginning of the nineteenth century exploitation had extended itself from the British Isles outward in every direction to the uttermost parts of the earth. It was through such exploitative procedure—by carrying further forward the exploitative policy inaugurated by Rome and continued so successfully by Spain—that Great Britain acquired her favorable balance of trade.

The balance thus acquired by exploitation Great Britain endeavored through production to secure, though not, be it said, with the same success, owing to inefficiency and diminishing returns. But before taking account of these restricting factors we should retrace our steps and pick up the course of Great Britain's productive career. Originating in intensive agriculture and the arts and crafts, productive activities develop along industrial lines and culminate, as I have shown, in commercial expansion. The geograph-

ical axis of these activities is from southeast to northwest; their historical course in this direction we have already traced, from Mesopotamia and Asia Minor in the southeast, northwestward across the Mediterranean to Southern Europe, thence up the Danube and down the Rhine, to the Baltic coast lands and the shores of the North Sea. Therewith we arrive at the starting-point of Great Britain's productive career. From these northwesterly outposts of agriculture, industry and commerce productive activities were carried over into England during the fourteenth and fifteenth centuries by Hanseatic merchants and Flemish manufacturers proceeding from the Baltic coast lands and the North Sea shores. Finding a congenial climate across the Channel, and a soil richly replenished from year to year by oversea exploitation, productive activities took root in England and thrived to such an extent that they were soon able to hold their own against their continental competitors. First the Dutch were defeated, then the French were forced to succumb. In short, such was the success of this so-called "nation of shop-keepers" that by the beginning of the nineteenth century British productive activities stood unquestionably supreme. From this time forth England produced an increasing exportable surplus, consisting for the most part of manufactured goods, which she continued to send abroad to the colonial and foreign markets of the world, in her own ships, across seas which she had succeeded in reducing to her exclusive control. It was in this way, by continually extending her productive activities, along the lines laid down by the city states of the ancient and medieval worlds, that Great Britain has been able to secure thus far her favorable balance of trade.

However, had it been simply a question of England's productive activities over against those of the European continent, I doubt very much whether Great Britain would ever have secured such a commanding position in the commercial world. Certainly the productive activities established on either side of the Rhine were more advisedly conceived and far better organized than those that developed in the British Isles. On the other hand, insular England possessed the advantage of an exploitative base abroad, whence she was able to derive, not only foodstuffs and raw materials in unlimited quantities, but also a considerable portion of the capital required to carry on her productive activities at home. Thus if I am right in my conjecture—and it seems verisimilar—the secret of Great Britain's success is to be sought not so much in her insular productive activities as in her exploitative base abroad. Whence I would con-

clude: Not altogether through exploitation, nor yet by production alone, but rather by a judicious combination of the two, has Great Britain been able to acquire, and thus far to secure, her favorable balance of trade. With the results already stated: England has come in our day to constitute the center of exchange; from Lombard Street, London, financial control at present proceeds.

There are evidences however of an impending change; if you can not read the writing on the wall, surely you can see the signs in the sky! As I foresee them, these changes are the inevitable outcome of another alteration in the age-old antithesis between exploitation and production, and in accordance with the operation of an inexorable law: *Exploitation allows inefficiency and leads to diminishing returns; whereas production requires efficiency and tends toward increasing returns.*

To acquire the proper perspective, look back along the historical line. Having unduly extended her exploitative base and unwisely restricted her productive activities, Great Britain is facing just such a disaster as confronted the Alexandrine empire of old. Diminishing returns have long since set in from abroad; inefficiency is becoming increasingly evident at home; and, naturally enough, these two factors,—diminishing returns on the one hand, and inefficiency on the other,—have already begun to affect Great Britain's favorable balance of trade. Formerly preponderant, this balance is no longer so large and is rapidly becoming less; to be convinced of this you have only to observe the declining tendency of sterling exchange. And what is the result? The inevitable when an economic system is out of accordance with the commercial code. As Roman gold flowed out in ancient times, even so is British gold flowing out in our day, along the trade routes, in an ever-swelling stream. Before the European conflict the outflow was smaller, and chiefly toward the east, in payment for such productive peace-goods as English industrialism was unable to supply; since the European conflict the outflow is larger, and chiefly toward the west, in payment for such destructive war-goods as British imperialism is unable to provide. These disturbances in the balance of trade have begun to produce their effects. One of these effects is to re-arouse the resistance of inferior folk both at home and abroad. So it was with Rome of old, so it is with England to-day. On the verge of revolt are the Irish and the laboring classes of the British Isles, and also the Indians, the Egyptians, and others across the seas; the colonials are still loyal, to be sure, but the disaster is only imminent as yet. Another of these effects is to stimulate the opposition of competing powers,

and here again Rome serves as an enlightening example. In Great Britain's case such opposition proceeds, as of old, from the European continent. Only, in this twentieth century such opposition is represented, no longer by the Dutch and the French, but by the two Teutonic powers established upon the banks of the Danube and the Rhine.

As I take it, these Teutonic powers are the legitimate successors, and therewith also the modern representatives, of the productive activities of the ancient and medieval worlds. Consider with me a moment the elements that go to establish such a claim. Geographically speaking, the Teutonic allies are even now in practical control, after the war is ended they will probably be in complete control, of all that productive territory extending in a southeasterly-northwesterly direction from the mouth of the Persian Gulf to the shores of the North Sea, and this in spite of exploitation on both sides! Ethnically speaking, the Teutonic people appear to have inherited the homely virtues and to have acquired the cosmopolitan; in consequence whereof they are not only frugal and industrious but ambitious and expansive to boot. Then again they are both imitative and ingenious, apt at education, prone to cooperation, and imbued with the spirit of patriotism besides. Geographic and ethnic antecedents induce economic and political consequences. Thus in an economic sense the Germans have shown themselves to be thoroughly efficient along agricultural, industrial, and commercial lines; to say anything of their artistic ability and scientific capacity would be superfluous in this connection. And finally, from the political point of view, the royal and imperial governments of these Teutonic powers have proved themselves competent not only to encourage and direct but also to advance and uphold the productive activities of their peoples.

I am not in the least prejudiced in behalf of the Teutons; the facts themselves establish my claim that Austria and Germany are the legitimate successors and modern representatives of the productive activities of the ancient and medieval worlds. Nor need I speak of them any longer in the plural. Germans and Austrians have a common language and literature, a common consciousness of rights and wrongs; therefore they should be considered as a single people; and as a unified power withal, inasmuch as the old antagonism between Hapsburgs and Hohenzollerns is a thing of the past, and the two powers are now in the closest sort of economic and political accord. Therefore such expressions as "the Germans" and

"the German empire" comprise both the Teutonic peoples and both the Teutonic powers. And so to proceed.

Excluded from exploitation by opposing powers, the Germans have confined themselves from the first, and continue to confine themselves, exclusively to production. Production requires efficiency and tends toward increasing returns; you have only to apply the test. For so efficient have the Germans become in their productive activities that, from a comparatively restricted and relatively unfavorable environment, they have succeeded in extracting progressively increasing returns; this you will see by consulting their statistics of wealth and population. Whereas diminishing returns and inefficiency arouse resistance from inferior folk, increasing returns and efficiency encourage cooperation among equals. So it has always been among productive peoples of the past, so it is among the German producers to-day. Working all together, with comparatively little friction or internal dissension, these Germans have succeeded in producing a large and diversified exportable surplus, consisting of fine products and finished goods, containing relatively high value in comparatively small compass, and this, be it said in passing, in spite of the fact that, for the lack of an exploitative base, or even colonial possessions, they have been compelled to import a considerable portion of their foodstuffs and raw materials from alien lands. The surplus thus derived from their productive activities, up to the outbreak of the European war, the Germans exported, not only to the continental markets but also over the seas, in their own ships, to the colonial and foreign markets of the world. Successful in their competition with other commerical countries, they were just about to acquire, and to secure by the way, their favorable balance of trade, when the jealousy of productive rivals was aroused and the opposition of exploitative powers appeared. I use the plural in this instance because, besides the British, the French should be considered as a competing productive people, and the Russians as an opposing exploitative power. But France and Russia are England's allies in this struggle, and, when all is said, Great Britain really represents all that now remains of productive competition and exploitative opposition to Germany's imperial designs. In the way of productive competition England was already worsted when the war broke out, owing, as I have said, to inefficiency and diminishing returns. Thus the issue seems to have resolved itself at last into a colossal struggle between British exploitative imperialism on the one side and German productive imperialism on the other.

Having already regarded the declining state of British exploita-

tive imperialism, let us now consider the promising condition of German productive imperialism, in order to effect some sort of a comparison between these colossal opponents. In spite of their successes on land, the Germans have suffered excessively from their enemy's continued control of the seas. With their ships interned and their carrying trade destroyed, with their imports and exports shut off by the British blockade, confined to their own country and ringed around by enemies on all sides, it seemed indeed impossible for the Germans to forestall disaster, much less secure success. That they have more than maintained their position so far, goes to show the possibilities of productive procedure, the power of efficiency, and the resource of increasing returns. Instead of exploiting, Germany has conserved and developed her natural resources, with the result that she became practically self-sufficing before the war, and since the war she has shown herself to be completely self-sufficing. Instead of exploiting, Germany has educated and organized her increasing population (she does not regard her subjects as inferior folk either at home or abroad), with the result that all classes of society proved themselves competent, and showed themselves willing to cooperate toward the imperial ideal. To be sure, there was some internal dissension, and considerable discontent, on the part of the Social Democrats particularly, before the war; but since the war internal differences appear to be obliterated, and all factions seem to be consistently supporting the imperial cause.

Let us see then what such patriotic cooperation has already accomplished, first on the field of arms. For one thing, Russia, Great Britain's exploitative ally, has been driven back beyond her borders, and to all intents and purposes eliminated from the struggle. This relieves Germany from further exploitative pressure on the east. Then again, considerable territory has been added by the force of arms to Germany's productive base, to wit, productive Belgium, productive Poland, the most productive portion of France, and the potential Balkan peninsula also, even to Constantinople, the ancient center of exchange. Now pass over to the agricultural and industrial domains. Practically self-sufficing before the war, Germany has apparently become completely self-sufficing since the war. At any rate, in spite of embargoes and blockades, she seems to be able not only to provide for her armies on the frontiers but also to support her non-combatants within the country. It is a question in this case of the foodstuffs, the raw materials, and the capital required to carry on her productive activities at home and continue

her military campaigns abroad; all these Germany appears to possess in sufficiency, even after a year and a half of destructive and expensive warfare. In evidence of all this you have only to consider the existing situation, and examine particularly the financial condition of the Reichsbank, together with the comparative rate of Berlin exchange. Over against the condition of the Bank of England and the state of sterling exchange, the comparison is significant and practically tells the entire tale. In short, so far as I can see, German productive imperialism appears to be in a surprisingly favorable position and apparently well able to hold its own, in war times now as in peace times before, against its arch-antagonist, British exploitative imperialism. Such is the existing stage of the age-old antithesis between exploitation and production.

I have consumed more space than I intended in tracing the historical course of this antithesis,—from Babylon and Assyria of the ancients to Germany and Great Britain to-day,—but even with the use of the economic key it takes some time to explain the complexities of the commercial code. And now by way of reiteration I may repeat that *that which is recently written is a continuation of, and consequently in accordance with, that which is already recorded.* Having run over that which is already recorded, you should be able to read that which is recently written, in the light of the inexorable law: *Exploitation allows inefficiency and leads to diminishing returns; whereas production requires efficiency and tends toward increasing returns.* By the use of this economic key the commercial situation becomes clearly defined. British exploitative imperialism has long since reached its apogee and is already on its downward course; whereas German productive imperialism is steadily rising and about to approach the climax of its career. Such is the alteration in the age-old antithesis which is soon to show its effects. Even before the war the comparative position of the two powers was evident enough in commercial competition; so far as the war has proceeded you can see the same situation in the shock of arms; after the war is ended the future relation between British exploitative and German productive imperialism will be definitely established. The economic elements are all in order, the commercial change is soon to occur. Already the balance of trade has commenced to tip, not, as was normally to be expected, toward the west, because of exploitation, but, somewhat exceptionally, toward the east, on account of production. This tipping of the balance of trade presages a further shifting of the center of exchange, not however from England across the Atlantic to America, but from England

across the Channel to the continent of Europe again. This is out of focus, of course, with Bishop Berkeley's philosophical vision, but in accordance, it seems to me, with the economic factors involved. Then too, and for the self-same reasons, such a reversal of the established procedure has already occurred once before, when the balance of trade turned against the western Mediterranean, and the center of exchange shifted accordingly from Rome to Constantinople. And therewith went also financial control and political power to boot.

What then are we to expect of financial control in this present case, and the political power to be derived therefrom? This depends primarily upon the future policy of the United States.

In the past we Americans have been complacently satisfied with exploitation, the exploitation of the natural resources and also the inferior folk of our country. So far, to be sure, we have succeeded in extracting increasing returns, and have become fairly efficient withal. But before long, diminishing returns are sure to set in, and already our inefficiency is becoming apparent along several lines. Then again our exploitative dependence upon Great Britain is a thing to be deplored; perhaps in the future we shall undertake to compete with productive Germany. We could do so on even terms, under free trade, by abandoning exploitation for all time. Thus by imitating and carrying still further forward the productive activities of continental Europe we should be able to tip the balance of trade in our favor at last and finally become the center of exchange. In which case financial control would extend in the future from the Mississippi valley, and political power proceed over all the New World and out across the Pacific. Such was Bishop Berkeley's prophecy. Not by exploitation, however, but only through production shall this prophecy be fulfilled, and Time's noblest offspring finally accomplish the apotheosis of America. But the details of all this would require more space than I have at my disposal.