A Problem In Credit Economy

ON behalf of the "Fight the Famine Council," Sir Geo. Paish visited America. His mission was to obtain 15 billions of dollars, in the form of credits, for the reconstruction of Europe. Four and one-half years of fighting had the effect of leaving the greater part of that continent in a crippled and helpless state. Without immediate, and material, assistance from the outside world, the whole social structure of Europe is in danger of a complete collapse. Only the speedy co-operation of America can ameliorate conditions and stay the cataclysm that daily threatens. What arrangement can be made between the banking interests of the old and new worlds in order to rehabilitate the famine-stricken, and war devastated, areas of the one, and provide an adequate outlet for the surplus commodities of the other?

This, in brief, is the problem we are called upon to solve. But, before plunging recklessly into the maelstrom of world finance, let us consider the line of demarcation between money and credit economy, and the reasons for the former giving way so completely to the latter.

Our authorities, on economics and finance, inform us that the past war was conducted almost entirely on credit. This information may seem a trifle confusing to our lay minds. In reflecting on the happenings of the past few years we are prone to conclude that the game was played through the instrumentality of men, money, guns, food, munitions, clothing, and ships, as well as chemical agencies, and mechanical contrivances emanating from human toil, skill, saving and endurance. This is how the situation would appear on the surface. But our economists, wise men that they are, have roamed extensively in the wonderland of finance and, consequently, have discovered that the whole affair was waged, and terminated, by means of credit.

A few centuries ago this credit proposition was of little importance. Fighting was strictly a cash business. The wars of the Crusades; the Wars of the Roses in England; the Peasants' War in Germany, and the wars between the Orleanist and Burgundian houses in France were fought only so long as the resources of the contending factions could be assembled in sufficient quantities to continue the struggle. When Richard I. required money to pay the expenses of his expedition to the "Holy Land," he disposed of every available asset in the kingdom for money, with which he purchased the equipment necessary for arming, feeding, and transporting his troops. As one chronicler has remarked: "He would have sold London itself if there was anyone to bid for it."

The sale of abbacies, bishoprics, and other ecclesiastical benefices supplied the church with the needed revenues to punish the infidelic possessors of the Lord's sepulchre and, incidentally, increase the landed wealth, and commercial privileges, of the most powerful institution of the middle ages. When Edward I. formulated his plans for the conquest of Wales and Scotland, and when Edward III. engineered a similar venture in regard to France, their mode of replenishing a depleted treasury was placing a tax on the export of wool, or else a levy of a stipulated weight of wool on the people of England. The arms that were forged, the cloth that was woven, the grain that was reaped, and the ships that were built had all to be paid for or confiscated before being utilized as war material. Promissory notes, bills of exchange, bank drafts, and other means of deferred payment—in short, the whole credit system was yet in its incipient stage, and its possibilities scarcely anticipated.

Before acquiring that confidence in each other that made possible terms of credit, merchant and manufacturer had first to establish law and order in the land. The conditions existing in the early parts of the middle ages, when mercenary barons, with armed retinues, continually clashed and openly defied the central authority were not conducive to securing cordial business relations between nations, or the various sections of any one nation. The centralized power must be capable of suppressing all insurrection and manipulating the military, judicial, administrative, and other institutions of the country from one base, instead of being divided amongst numerous little groups within the whole. A strong stable government was the first requisite for a development from money to credit economy.

But, even with this condition granted, only one step was made on this interesting journey. So long as the old guild system, or handicraft production, existed, things were produced essentially for use. Whatever goods found their way into the realms of exchange arrived there because there was too great a quantity for the producer to consume. One commodity was given directly for another with nothing to necessitate the suspension of payment till a future date. The gaining of a livelihood, instead of the making of profits, was the chief concern of medieval lord and manufacturer. Each state was able to supply the major portion of its own wants, and what was obtained from other centres was largely in the category of luxuries. The great incentive to change is found in the geographical discoveries of the 15th and 16th centuries, opening up hitherto unknown markets, and forcing the invention of labor-saving machinery to fill the increasing demand for manufactured articles.

The rising capitalists of Europe sought to extend their influence and control over the new markets. It was imperative that they should. Here was the opportunity to dispose of their factory wares among the denizens of undeveloped areas. Italy, Spain, Portugal, Holland, France and England, each in turn, assumed the star role in the great commercial drama. The rich natural resources of East and West were seized with ruthless severity and minerals, cotton, rice, indigo, tobacco, and spices rewarded the efforts of maritime explorers who braved the dangers of uncharted seas.

The colonial spstem was by no means a stimulus to any "entente cordial" among the competing nations. The sight of profits arising from the transformation of colonial products into capital sharpened the wits, and inflamed the passions, of merchant and trader till soon the gladiatorial combats of ancient Rome, magnified a thousand fold, appeared in a world arena. The wars engendered through commercial competition formed the foundation of national debts. It became profitable, and consequently feasible, to borrow money and supplies on the strength of existing or potential resources, and these loans could be repaid out of the plunder obtained. This new system of public credits urged the introduction of banks to facilitate exchange and regulate credit. Soon the old method of buying and selling, with money as a medium of the transaction, was obsolete in international trading. The era of credit economy had arrived through a natural process. Markets, inventions, wars, debts, taxes, loans, these are the stepping stones from medieval to modern methods.

Today, then, "our" wars bear little resemblance to those of an earlier period. The individual who wields the sabre or faces the cannon sees the most exciting, 'though the least entrancing part of the game. Many factors have influenced the transition from the age of **chivalry** to the age of **shovelry**. The counting-house has usurped the glamour that formerly pertained to the field.

The organic nature of society has been well portrayed by the political, social, and economic events of the past few years. In theory the war was a struggle between groups of nations almost entirely confined to the continent of Europe. But, in reality, every portion of the civilized globe was directly or indirectly participating in the fight, as what affects one section of the organism likewise affects the whole, and today every capitalist nation is equally concerned over the formulation of schemes against the economic forces which threaten to plunge their whole establishment into bankruptcy and anarchy.

While two sets of allies—Teutonic and Entente—had monopolized the glory of originating and conducting the elevating campaign, still neither group was sufficient unto itself to play the game. Supplies of all military requisites must be obtained from the rest of Christendom. It would be an economic impossibility for any capitalist country to store up a supply of materials adequate for five years of continuous slaughter. As seen before, the production of the season is moulded by the needs of the season, and there is little probability of the pendulum swinging much further in the producing direction. To continue the war, on such an extended scale, support must be derived from the ostensibly neutral nations.

The contribution of the United States consisted of armaments, food, munitions, stores, equipment and, latterly, of men. Practically all of these requisites were sold on credit. The difficulty of obtaining those favorable terms was obviated by the sale in the U. S. of large quantities of British securities previously owned by British investors, and by the creation of credit secured by the deposit as collateral of huge masses of securities of all kinds and descriptions. In the early part of the war the kind of securities demanded by American bankers, as collateral for loans, was easily obtained. But, as hostlities continued and more materials were purchased, the supplies of suitable securities rapidly dwindled to such an extent that the prospects of "carrying on" looked rather shady 'till, at the Economic Conference at Paris, the Entente Allies threatened dire calamities against non-participants and forced America to join their ranks. Wtih this acquisition, the problem of credits was solved by the issue of American Government Liberty Loans, mortgaging the future of wage workers, and guaranteeing supplies from the only source from which production is possible.

The loans from America to Europe, in terms of cash, totalled 10 billions of dollars, made up of copper, coal, cloth, cotton, trucks, planes, etc. Five years ago our economists insisted that the wealth of the U. S. was approximately 150 billions of dollars. Now, after a season of energetic destruction of wealth in human lives and commodities, they accuse us of being worth close on 300 billions. That we are unable to comprehend this vast augmentation to our resources in no way alters the result. One thing peculiar about the "science" of finance is that here we find the less a thing becomes the bigger it gets. The ruthless destruction of real wealth results in a great increase of financial wealth.

With the war partially settled the considerations that actuated America to grant financial assistance to her Entente colleagues are not so imposing as they were. American capitalists having reaped their harvest while the excitement was on, are willing to forget the aftermath of war. They desire to resume the peaceful vocation of exploiting their wage workers without interference from the outside.

But not so with Europe. She must depend on external sources. Her population has not sufficient food to tide them over till the next harvest, and the coming crop will not equal their needs. Again, the quantity of goods Europe can export in the meantime does not nearly approach in value the food and materials she requires to import. The problem of getting back to work is not so easy to solve when we consider that whole districts of Europe have been swept clean of all resources, and that over the larger part of the continent farms, mines, oil wells, and factories have been dislocated beyond the possibility of speedy recovery.

Capitalist Europe cannot "come back" without the assistance of Capitalist America. The former requires food and raw material, but, outside of credit operations, there are no means of payment in sight. America to remain in existence as a capitalist nation must dispose of the surplus wealth wrung from her wage-slaves in any market it is possible to find, so must assist in the reconstruction of Europe for her own salvation. The independent attitude assumed by the small politicians, and the yellow press of America, who cannot realize the **cul-de-sac** in which Europe on the one hand, and America on the other, are placed, must be avoided or commercial suicide is the speedy climax.

But in any case, whatever action the rulers of the world may take, at best it can only stay the impending collapse of the capitalist system. Fiscal readjustment, stock manipulation, philosophical controversy, borrowing or lending, fighting or loving, cannot do more than delay the change. Like all previous forms of society, that succumbed when they outlived their usefulness, the present structure is showing healthy signs of dissolution. Economic evolution is merciless in its method. The puny minds of statesmen and diplomats cannot turn aside its course. The law of change is immutable; the old order must give way to the new.

J. A. McD.