

New York as a World Exchange Centre

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In considering how far it may be possible for New York to supplant London as the chief financial and exchange centre of the world, it is necessary to consider such a contingency as far as may be in the light of the actual experience of international exchange. Up to the beginning of the present war at least, London has been the world's undisputed financial centre. The most important consideration in attempting to estimate the ability of New York to take the place of London must lie in the answer to two questions—first, how did London acquire and retain its financial supremacy, and, secondly, is New York in a position to excel London in this connection, and thus fulfil the practical requirements of an international exchange.

Those who have carefully followed the past development and modern supremacy of London in international exchange must recognize that her position has been secured and hitherto maintained on four fundamental grounds of actual experience.

1. The building up of a large and varied trade, both export and import, with all parts of the world.
2. The development of a direct shipping connection with all the chief ports of the world and incidentally with all the secondary ports connected with the chief shipping routes.
3. The adoption and maintenance of a policy of free trade with the world at large, both as to imports and exports.
4. The building up of a thoroughly sound system of finance and credit in domestic trade, and the extension of this to the world at large co-extensively with the expansion of her foreign trade and shipping.

All four of these features are so intimately and inseparably connected with each other that without any one of them the others could never have brought London, as the central organ of these forces, to the indisputable supremacy which it has occupied for at least three-quarters of a century.

Considering each of these features a little more closely, we recognize that unless Britain had built up an active trade, not only with a few of the most important countries, but with all parts of the world, she could not have had that first-hand and mutual knowledge and connection with the trading communities of the world which alone could furnish the basis for the responsive though highly sensitive machinery of credit, which is only thoroughly efficient and sure footed when resting on the solid rock of personally known and long established financial security. On the other hand, such a widely diffused and steadily maintained trade connection was possible only when the shipping facilities for out-going and incoming trade were regularly established and periodically certain. But an extensive shipping, in turn, placed at the disposal of the British merchants and traders the facilities for developing a vast amount of secondary trade between foreign countries. Thus, on the one hand, the earning power of British shipping was increased, and on the other, the profits of British traders and the corresponding extension of British exchange in the financing of this secondary trade through London. But the sure and rapid expansion alike of direct and indirect trade was made possible chiefly through the British commercial policy of freedom of trade. The trade of other countries was hampered in every direction by elaborate and vexatious customs barriers and regulations which were subject to frequent and unexpected changes naturally discouraging to the up-building of new trade connections. No such interruptions and uncertainties attended trade with Britain, which having equal connection with all countries and enjoying the most favored nation facilities for trade with all the world, was the most reliable and certain channel through which all nations could maintain their trade with the more distant countries, and every from time to time, during periodic tariff reprisals, with adjoining and neighboring states. Thus, through her trade policy England was always in the best possible condition to make effective disposal of her own manufactures, to obtain the cheapest and most constant supply of raw materials for her industries and of goods for domestic consumption. At the same time the necessary maintenance of her industries on a basis of open competition kept them in an atmosphere of resourcefulness and enterprise which was the surest guarantee of their ability to maintain an ascendancy in international trade.

When these indispensable conditions were accompanied by a thoroughly sound financial and ex-

change system at home, and which gradually extended itself abroad in company with an expanding trade, we find that the control of the exchange system of the world was a natural accompaniment of leadership in the international trade and shipping of the world. But, inasmuch as it is easier for newcomers to develop foreign trade than to develop foreign credit, and as the English credit system was firmly established in advance of most others, on the basis of its own trade, it was found that British credit, to an even greater extent than British shipping, could take care of other than its own trade. In consequence, the machinery of British international exchanges became even more extensive than English trade. Bills of exchange were drawn and payments financed through London for millions of pounds worth of trade which never touched the English shores and where neither buyers nor sellers were English merchants. Foreign buyers and sellers might have but an imperfect knowledge of each other's integrity or financial standing, yet both had knowledge of British exchange houses and confidence in their integrity. Thus, by means of credit documents such as bills of lading and warehouse receipts, which carry title to goods and which accompany the bills of exchange, the insuring of payment on the final delivery of the goods was entrusted to British exchange brokers and their allied bankers, in whom alone the parties to international trade had mutual confidence.

While the gradual up-building of such a remarkable system of international credit centering in London followed the actual expansion of British trade and shipping, yet it required certain exceptional features in international finance in order to expand beyond national limits and become an international service. The chief factor in this connection was the long and severely tried stability of the British financial system. Many and severe crises have swept the financial world within the past three-quarters of a century. One national banking centre after another has been paralyzed for a time, but, while naturally reflecting the effects of these crises in other countries, London alone has weathered all the storms and panics. Her credit has suffered less and recovered sooner, so that dependence upon London as an international banking centre has been invariably justified. Hence, after each successive trial, London has emerged more firmly than ever in command of the world's confidence. The present crisis, the greatest of all, presents so far at least no exception. It is London alone of European centres which is standing the strain, bearing in the face of the world not only the exceedingly heavy burden of British finance, but much of the burdens of the Allies and of the neutral nations as well. It is this trial by fire successfully sustained which is likely to place London at the close of the struggle more firmly in the saddle than ever, and only a change in her traditional policy for the past two and a half centuries can seriously threaten her supremacy in the financial world for many years to come.

Let us turn now to consider in the light of this concrete experience, the prospects and claims of New York to supplant London as the chief centre of international exchange. One is at once struck by the fact that in none of the four fundamental conditions of London's successful development, has New York as yet a sound basis for her aspirations. It is true that the United States during the past ten years has developed a very considerable volume of foreign trade, but it is not as yet very widely diffused, either in geographic area or number of commercial products. According to American reports, through the Bureau of Foreign and Domestic Commerce, while their exports are rapidly developing and are naturally changing from food stuffs to manufactured articles, yet, for the decade before the war, four-fifths of their exports still went to Britain, Canada, Germany, France, the Netherlands, Italy, Belgium, Japan, Cuba Mexico and the South American States. One-fourth of the whole went to Britain and one-sixth to Canada, while forty-six percent went to the British Empire alone. This obviously indicates no radical changes and furnishes no basis for an immediate revolution in America's position in international exchange. Certainly before the war broke out, there was little indication of New York's equipment to rival London.

Again, it may be noted that the United States, for

a first rate commercial and industrial power, is exceptionally deficient in international shipping, which, as we have seen, has counted for so much in the development of British financial supremacy. In the case of the United States this condition is, of course, due not to lack of potential trade, but to the highly artificial domestic system of tariff protection, which discourages both shipping and general international trade. Indeed, the great volume of American trade is still confined to a relatively small number of special lines. No question is here raised as to the wisdom or unwisdom, from the domestic point of view, of the American protective policy of trade restriction. The point is simply this, that if a country deliberately restricts its international shipping, it cannot possibly expect to develop a predominant system of international exchange; and, of course, the United States has not done so.

Moreover, the United States has not overcome its tendency to periods of unstable domestic finance and banking, due to reckless speculation, coupled with a lack of wisdom and of a sufficient sense of responsibility on the part of a diminishing but still formidable element in American finance. As a result the country has suffered from periodic financial crises and the consequent collapse of numerous financial institutions. Only prompt assistance from London has averted more serious results on several historic occasions. These conditions are, of course, anything but conducive to international confidence in the financial stability of New York. Without a varied and intimate trade connection with America, the traders and dealers in bills of exchange throughout the world cannot have any adequate knowledge of the relative standing of the New York bankers and bill brokers. Even in Europe, London alone knows New York sufficiently well to be able to deal with it in comparative safety.

At this point we run upon a very radical difference in the bases upon which American and British financiers conduct their business. The typical British expert devotes the greater part of his attention to the character and personality of the men with whom he is doing business, and much less to the details of the enterprises in which they are engaged. His American representatives enquire very closely into the details of the enterprises which he is asked to support, but concerns himself much less with the personalities of the men who are conducting them. Both methods have their strong and weak features. Inasmuch, however, as in the long run it is the human factor and not the material factor which controls the world and determines success or failure, the British method has hitherto achieved the greater success. Moreover, this method has the important practical advantage of readily lending itself to the development of just such a world-wide function as that of international exchange, which it is well nigh impossible to operate successfully on the American basis.

On all grounds, therefore, we come back to the conclusion as tested by actual experience, that New York, as the financial centre of the United States, has hitherto made but little progress in the line of supplanting London as a world centre of finance and exchange. Although since the outbreak of the war, European credit has been severely strained, yet, so far at least, nothing has occurred to indicate that New York is likely to displace London after the struggle is over. As a source of fluid capital and a temporary resort for gold, the United States will of necessity hold an important position after the war. But, as the leading channel through which these accumulations will be distributed to the world at large, London and not New York, will be the chief beneficiary for some considerable time at least. In many respects the situation is analogous to that of the cotton supply of the United States. It has been from the United States that the greater part of the raw cotton of the world has been derived. But for many decades it has been chiefly through the mills of Lancashire, to the profit of the British manufacturers, ship owners, exchange brokers and bankers, that American cotton has been distributed to the world at large in the shape of an infinite variety of cotton goods. So, for at least several decades to come, through London and its world-wide financial connections, the recent accumulations of United States capital and gold will be distributed to the world in profitable investments. The only danger in this respect which Britain may have to fear is a domestic and not a foreign one. And that lies in the possibility of giving heed to evil counselors at home who are urging her to offer asylum and adoption to the delusions which her wisely husbanded resources are now so vitally assisting in driving out of Germany.