

The Nature of Money, Conflict, and the Rise and Fall of Empires



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Three Things

I want to make three main points (talk about three main topics) and try to link them together:

(1) The Relationship Between Money and War/Conflict

- surely *not* simply that ‘money is the root of all evil’ or that ‘capitalism/profit is inherently immoral’ – or anything like that. But then, what *is* the connection exactly?

(2) Sir John Glubb’s Well-Known Thesis That Empires or Political Regimes Last for Around 250 Years on Average

- this seems like a problem for contemporary America? The USA was founded in 1776, and it is now 2026.

(3) A Case Study of the British Empire

- here the Glubb thesis seems to work. There were exactly 250 years between the founding of the Bank of England in 1694 and the ceding of hegemony to the USA at the Bretton Woods financial conference in 1944. The case of Britain validates the money/financial connection. The postwar ‘globalist’ financial institutions (IMF/World Bank, *etc.*) were originally set up at Bretton Woods, but now that whole structure is itself in jeopardy.

The Bank of England (this where the British Empire was born)



The Mount Washington Hotel, Bretton Woods, New Hampshire (this is where the British Empire came to die)



The Nature of Money (a philosopher might say the ‘ontology’ of money)

- the concept of ‘money’ is widely misunderstood in mainstream economics, financial theory, and financial history.
- money is not a neutral ‘medium of exchange’ that evolved from barter. It is not a gold coin, a silver coin, a copper coin, a piece of paper, or even a piece of plastic. Those artifacts are just alternative ways of recording indebtedness.
- money is a ‘social relation’ to quote from an article by Geoff Ingham (1996). Specifically, a relation of indebtedness.

The Nature of Money (continued)

Two quotes sum the whole thing up:

- **INGHAM 2004:**

‘All money is debt in so far as issuers promise to accept their own money for *any* debt payment by *any* bearer of the money.’ (original emphasis).

- **HICKS 1989:**

‘Money is (what is) paid for a discharge of debt when that debt has been expressed in terms of money’. (this might seem like circular reasoning, but it is precisely to the point – if a judgement is made against me in court that I owe someone \$20,000, I have to come up with \$20,000. I cannot give 20,000 marshmallows or 20,000 matchboxes. The question is what ‘counts as’ \$20,000 in any given set of circumstances.

- in the case of the ‘State’ it has the power to tax. All it has to do is accept its own money back in payment of taxes. The mantra of ‘modern monetary theory’ (MMT) is that ‘taxes drive money’. I think they are quite right about this.

Stylized Bank Balance Sheet

<u>Assets</u>		<u>Liabilities</u>	
Loans	120,000	Redeemable Deposits	100,000 ← MONEY
Other Investments	50,000	Non-redeemable Deposits	40,000 ▲
		Bank Capital	30,000
	<hr/> 170,000		<hr/> 170,000

- this could be a commercial bank, a central bank (as just discussed), or any other similar type of financial institution. The point is that balance sheets balance (assets equal liabilities). Money is a subset of the items on the liabilities side of bank balance sheets (the redeemable deposits). If there needs to be more money to spend on whatever one needs to buy (*i.e.*, an expansion on the liabilities side), there needs to be an increase on the asset side also. There needs to be credit creation - the bank needs to make loans or purchase other assets (*e.g.*, buy bonds).

Two Sources of Conflict?

(1) Not enough money (not enough credit creation)

- however, almost everything that conventional economics recommends tends to restrict credit creation and thus tends to cause conflict! ... the old gold standard, high interest rates, balanced budgets, the single currency (in Europe), and on, and on, and on

(2) The international balance of payments

- particularly relevant to the notion of empire building

The International Balance of Payments

$$\text{BOP} = \text{Change in FE Reserves} = \text{Capital Account} + \text{Current Account}$$

- the balance of payments is a record of a nation's transactions with the outside world during an accounting period, such as a quarter or a year. It is the sum across the capital account and the current account
- if there is no change in FE reserves:

$$(-) \text{Capital Account} = \text{Current Account}$$

- this is a basic principle. Even when changes in FE reserves are not zero, they would have to be very large indeed to upset it.
- the current account is exports *minus* imports, whereas the capital account represents international capital flows (international borrowing and lending, and international direct investment)
- if exports are greater than imports, then the capital account is 'negative'. This sounds like a bad thing for the domestic economy, but all it means is that the money that has been made has to find an outlet somewhere. What happens is that the nation will invest, so to speak, in foreign countries. One can easily see that in historical circumstances that investment could take the form of ships and guns, and migration, and building infrastructure overseas. (In fact, why bother to use the qualifier 'historical' when considering the contemporary world scene?)

Is There a Way Out?

A system of ‘sovereign non-reserve currencies’ with floating exchange rates?

- I am grateful to Matias De Lucchi of the Central Bank of Argentina, for this terminology. Matias is also an API associate. He and I have been talking about what might be the ‘correct’ terminology for the last few months.

Is this the system that the BRICS are currently setting up?

- the BRICS means BRAZIL, RUSSIA, INDIA, CHINA and SOUTH AFRICA. This is an international trading group, and they have been joined by many other countries in the last few years. They do not want to (or cannot) use the present international reserve currency - the US dollar. They just trade bilaterally - trading rubles for yuan, for example - allowing exchange rates to adjust. In principle, if exchange rates are allowed to adjust fully, the capital account and current account might be able to get into balance in each jurisdiction.

- *cf.* the Kazan meeting of 2025 – analogies to Bretton Woods in 1944?

The Fate of Empires and the Search for Survival

- this is the title of a book by Sir John Glubb (Glubb Pasha) written in 1976.
- Glubb knew what he was talking about, specifically the collapse of the British Empire.
- Glubb was a former British Army officer who, in the post-WW2 period, worked for King Abdhullah of Jordan
- he was the commander of the 'Arab Legion' in the war with Israel in 1948.
- the thesis was that empires or political regimes last, on average, around 250 years there are many historical examples that Glubb was able to cite.

Sir John Glubb



The Life-Span of Empires

- there is a temptation to interpret this in psychological, sociological, or even biological terms
- *e.g.*, 250 years encompasses the life-spans of 3 octogenarians
- the idea might be, therefore, that the first generation is strong and progressive, the second complacent, and the third is weak *etc.*
- maybe there is something in this, but it does not really work on closer inspection - there are overlapping generations, there is no allowance for learning or the intellect, and, above all, the 250-year time-span is only an average, some regimes are much shorter, some are longer, and so on.
- should we be looking for some other factor (such as the financial issues) ?

City of Man, City of God, or the City of London?

- the 'City of God' was the title of a book written by St. Augustine, Bishop of Hippo, and published in 426.
- the 'City of Man' was Rome, but Rome was collapsing. The legions were withdrawn from Britain in 407 (Britain again! - this was the furthest reach of the Roman empire), and Rome itself was sacked in 410
- the fall of Rome was a big disappointment to Augustine - even though arguably (I stress 'arguably') the kind of doctrines he himself was promoting may have contributed to this. His idea was that we should put our faith in more spiritual things – the 'City of God'.
- the City of London was/is the financial centre of Great Britain.

The Timeline of the British Empire

1694: – the founding of the Bank of England

1707: - the Act of Union creation of the state of Great Britain itself

1701–1714: – the War of the Spanish Succession

- basically England/Britain created the financial architecture to enable them to conduct the war(s). By 1714 they were a world power.

1756–1763: – the Seven Years War (French and Indian Wars), Canada was conquered by Great Britain

1775–1783: - the American War of Independence (American Revolution)

- but this did not finish off the empire by any means - the British did not skip a beat

1792-1815: - the Revolutionary (French) and Napoleonic Wars (Britain again victorious)

The Timeline of the British Empire (continued)

1797-1821: - the Bank Restriction period

- this is a misnomer - the Bank of England was 'restricted' from paying out on its own liabilities in gold. A 'pure credit system' was set up. Again, it seems that there is a connection between the financial arrangements and the successful prosecution of war.

1844: - Peel's Bank Act

- this is often seen as the triumph of orthodox financial theory – to restrict credit creation by tying the money supply to gold. The beginning of the end? Only 100 years to go before Bretton Woods

1866: - the last occasion on which the Bank Act was suspended

1873: - 'the Crime of '73' start of the International Gold Standard

1886: - gold discovered in South Africa

1896: - gold discovered in the Klondike

1899-1902: the Boer War

The Timeline of the British Empire (continued)

1914-1918: - World War 1

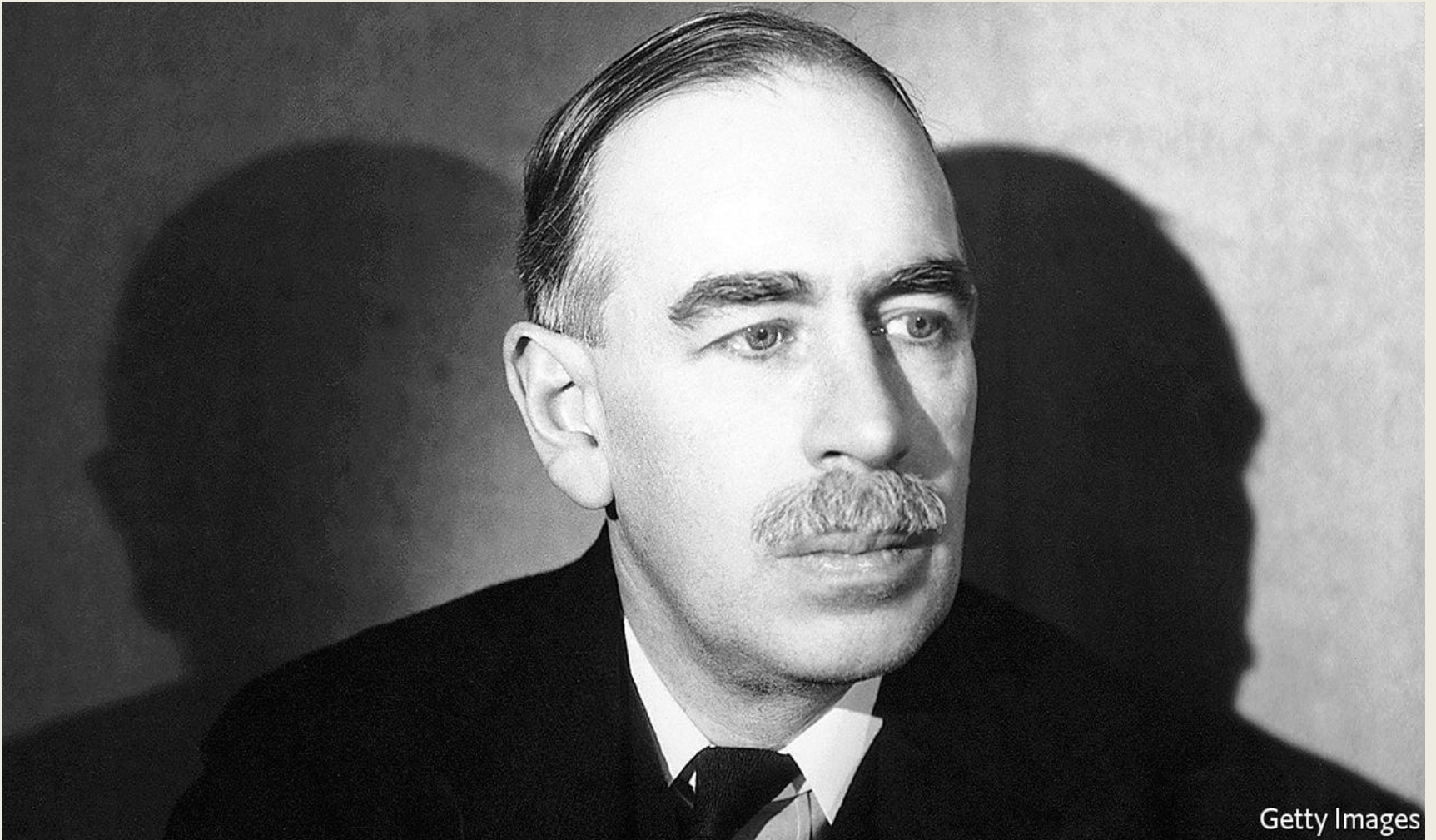
1925-1931: - the restored Gold Standard (*cf. The Economic Consequences of Mr. Churchill* by J.M. Keynes)

1931: - the International Financial Crisis

1939-1945: - World War 2

1944: - the Bretton Woods conference – hegemony ceded to the United States

John Maynard Keynes



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Lament for a Nation?

- how did Canada hold up after the collapse of the British Empire?
- it was the largest of the British Dominions and is still the second largest country in the world abundant resources ... and seemed to do well in the two decades after WW2.
- but the above was the title of a famous book by the Canadian philosopher George Grant, published in 1965. He was referring to the various political events of the 1960s (the cancellation of the Avro Arrow airplane, the Auto Pact, *etc.*) He thought that the political elites in Ontario and Quebec – the ‘Laurentian elites’ - had sold out, or so to speak. I don’t recall if he mentioned the fixed exchange rate in 1962, when Canada belatedly joined the Bretton Woods system. This was over by 1970, but maybe the damage had been done by then?
- Canada all over by 1965? What do people think?

George Grant



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