

## **SILVER AND OPIUM**

The opium wars do not belong to the glorious episodes of Western history. Rather, they were instances of shameful behavior the West still has not lived down. Mercantilist governments resented the perpetual drain of silver from West to East in payment for Oriental goods (tea, silk, porcelain) that were in high demand in the Occident, facing low demand in the Orient for Occidental goods. From the mid-17<sup>th</sup> century more than 9 billion Troy ounces or 290 thousand metric tons of silver was absorbed by China from European countries in exchange for Chinese goods.

The British introduced opium along with tobacco as an export item to China in order to reduce their trade deficit. Under the disguise of free trade, the British, the Spanish and the French with the tacit approval of the Americans continued sending their contraband to China through legitimate as well as illegitimate trade channels even after the Chinese dynasty put an embargo on opium imports. Because of its strong appeal to the Chinese masses, and because of its highly addictive nature, opium appeared to be the ideal solution to the West's trade problem. And, indeed, the flow of silver was first stopped, and then reversed. China was forced to pay silver for her addiction to opium smoking that was artificially induced by the pusher: the British.

Thus silver was replaced by opium as the mainstay of Western exports. In 1729 China, recognizing the growing problem of addiction and the debilitating and mind-corrupting nature of the drug, prohibited the sale and smoking of opium; allowing only a small quota of imports for medicinal purposes. The British defied the embargo and ban on opium trade, and encouraged smuggling. As a result, British exports of opium to China grew from an estimated 15 tons to 75 by 1773. This increased further to 900 tons by 1820; and to 1400 tons annually by 1838 — an almost 100-fold increase in 100 years.

Something had to be done. The Chinese government introduced death penalty for drug trafficking, and put British processing and distributing facilities on Chinese soil under siege. Chinese troops boarded British ships in international waters carrying opium to Chinese ports and destroyed their cargo, in addition to the destruction of opium found on Chinese territory. The British accused the Chinese of destroying British property, and sent a large British-Indian army to China in order to exact punishment.

British military superiority was clearly evident in the armed conflict. British warships wreaked havoc on coastal towns. After taking Canton the British sailed up the Yangtze River. They grabbed the tax barges, inflicting a devastating blow on the Chinese as imperial revenues were impossible to collect. In 1842 China sued for peace that was concluded in Nanking and ratified the following year. In the treaty China was forced to pay an indemnity to Britain, open four port cities where British subjects were given extraterritorial privileges, and cede Hong Kong to Britain. In 1844 the United States and France signed similar treaties with China.

These humiliating treaties were criticized in the House of Commons by William E. Gladstone, who later served as Prime Minister. He was wondering “whether there had ever been a war more unjust in its origin, a war more calculated to cover Britain with permanent disgrace.” The Foreign Secretary, Lord Palmerston replied that nobody believed that the Chinese government’s motive was “the promotion of good moral habits”, or that the war was fought to stem China’s balance of trade deficit. The American president John Quincy Adams chimed in during the debate by suggesting that opium was a “mere incident”. According to him “the cause of the war was the arrogant and insupportable pretensions of China that she would hold commercial intercourse with the rest of mankind not upon terms of equal reciprocity, but upon the insulting and degrading forms of the relations between lord and vassal.” These words are echoed, 160 years later, by president Obama’s recent disdainful pronouncements to the effect that China’s exchange-rate policy is unacceptable to the rest of mankind as it pretends that China’s currency is that of the lord, and everybody else’s is that of the vassal.

The peace of Nanking did not last. The Chinese searched a suspicious ship, and the British answered by putting the port city of Canton under siege in 1856, occupying it in 1857. The French also entered the fray. British troops were approaching Beijing and set on to destroy the Summer Palace. China again was forced to sue for peace. In the peace treaty of Tianjin China yielded to the demand to create ten new port cities, and granted foreigners free passage throughout the country. It also agreed to pay an indemnity of five million ounces of silver: three million to Britain and two million to France.

This deliberate humiliation of China by the Western powers contributed greatly to the loosening and ultimate snapping of the internal coherence of the Qing Dynasty, leading to the Taiping Rebellion (1850-1864), the Boxer Uprising (1899-1901) and, ultimately, to the downfall of the Qing Dynasty in 1912.

The present trade dispute between the U.S. and China is reminiscent of the background to the two Opium Wars. Once more, the issue is the humiliation and plunder of China as a “thank you” for China’s favor of having provided consumer goods for which the West was unable to pay in terms of Western

goods suitable for Chinese consumption. The only difference is the absence of opium in the dispute.

Oops, I take it back. The role of *opium* in the current dispute is played by *paper*. Paper dollars, to be precise. In 1971 an atrocity was made that I call the *Nixon-Friedman conspiracy*. To cover up the shame and disgrace of the default of the U.S. on its international gold obligations, Milton Friedman (following an earlier failed attempt of John M. Keynes) concocted a spurious and idiotic theory of floating exchange rates. It suggests that falling foreign exchange value of the domestic currency makes it *stronger* when in actual fact the opposite is true: it is made *weaker* as the terms of trade of the devaluing country deteriorates and that of its trading partners improves. Nixon was quick to embrace the false theory of Friedman. No public debate of the plan was permitted then, or ever after. Under the new dispensation the irredeemable dollar was to play the role of the ultimate extinguisher of debt, a preposterous idea. The scheme was imposed on the world under duress as part of the “new millennium”, shaking off the “tyranny of gold”, that “barbarous relic”, the last remnant of superstition, the only remaining “anachronism of the Modern Age”. The ploy was played up and celebrated as a great scientific breakthrough, making it possible for man to shape his own destiny rationally, free of superstition, for the first time ever. Yet all it was a cheap trick to elevate the dishonored paper of an insolvent banker (the U.S.) from scum to the holy of holies: international currency. The fact that fiat paper money has a history of 100 percent mortality was neatly side-stepped. Any questioning of the wisdom of experimenting with is in spite of logic and historical evidence was declared foggy-bottom reactionary thinking.

The amazing thing about this episode of the history of human folly was the ease with which it could be pushed down the throat of the rest of the world, including those nations that were directly hurt by it, such as the ones running a trade surplus with the U.S. Their savings went up in smoke. The explanation for this self-destructing behavior is the addictive, debilitating and mind-corrosive nature of paper money, in direct analogy with that of opium. The high caused by administering the opium pipe to the patient (read: administering QE) had to be repeated when the effect faded by a fresh administration of more opium (read: more QE2).

If the patient resists, like China did in 1840, then a holy opium war must be declared on it in the name of the right of others to free trade. 170 years later a New China once more demurred against the paper-torture treatment it was subjected to by the American debt-mongers and opium pushers.

But beware: if the West starts another Opium War, this time it is not China that will be on the losing side.

### Reference

*Opium Wars*, Wikipedia, June 29, 2010.

## ANNOUNCEMENT

### New Austrian School of Economics

Course Two at the Martineum Academy in Szombathely, Hungary, from March 5 through 13, 2011. Title of the course:

#### **ADAM SMITH'S REAL BILLS DOCTRINE AND SOCIAL CIRCULATING CAPITAL**

What makes this course especially topical today is the fact that more and more hints are being dropped about the possible rehabilitation and restoration of the gold standard — following the ignominious collapse of the irredeemable dollar. However, a *gold standard without its clearing house, the bill market, is not viable* and itself is liable to collapse in short order — as it did in the early 1930's. The level of public ignorance about the necessity of a clearing house is appalling. It is made that much worse by a tottering banking system. We have an urgent message: only gold standard *cum* real bills can restore prosperity to the world, in view of the fact that *we have to write off the world's banking system as a total loss*.

This is the second in a four-course series on Austrian Economics, a branch of economic science based on the work of Carl Menger (1840-1921). It is meant for those, including beginners, who are interested in the theory of money, credit, and banking, with *special emphasis on the current financial and economic crisis*. The complete program consists of four courses (10 days, 20 lectures each). Completion of each course will earn one credit. Participants who have accumulated four credits get a diploma signed by Professor Fekete. Course One that was given in 2010 *is not a prerequisite*. It is available on DVD for purchase. For further information please contact Dr. Judith Szepesvari,

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## **NEW! EXTRA! SEMINAR**

### **Basis, Co-basis, Permanent Backwardation of Gold and Silver and What It Means**

March 14, Monday

*The New Austrian School of Economics is the only place in the world where you can learn about the gold and silver basis, co-basis, permanent backwardation, and their importance.* In 2008 we offered a successful Seminar on the basis in Canberra, Australia, that was followed by a second Seminar in 2009. This will be the third in the series, where the latest results of the ongoing research on the gold and silver basis and co-basis will be discussed by our star research fellow, Sandeep Jaitly, followed by an open-ended discussion.

No prerequisites are needed: we start with an introductory lecture on the basis and co-basis, with reference to permanent backwardation, by Professor Fekete.

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