CAPITAL INVESTMENTS AND TRADE BALANCES

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This excess of invisible credits will approximately balance or offset the above-mentioned excess of visible or merchandise imports (debits).

Britain's Invisible Credits

Prominent among the invisible credits is the payment to England of interest on British capital invested overseas and repayments of principal under old loans. It was estimated by Giffen in 1898, that England was receiving about $450,000,000 per annum in the form of interest from abroad. According to the estimate of Paish in 1909, the British people were receiving over $600,000,000 a year from their foreign investments. Immediately prior to the war England's interest returns probably amounted annually to at least $650,000,000. In the opinion of Todd the repayment of loans yielded an annual payment to England of approximately $500,000,000.[8]

A second important invisible credit is the sum earned by the British merchant marine in ocean transport service throughout the world. According to the estimate of Giffen in 1898, this amounted to about $450,000,000. An independent calculation by the Board of Trade on quite different lines, in 1903, made it only slightly less. In considering this item it is necessary to bear in mind the important fact that in the Board of Trade returns the values of imports include cost, insurance, and freight; whereas the values of exports include cost and only the charges of delivery on board ship. That is to say the exports are entered in the trade statistics on the value basis of "Free on Board," or F.O.B., while imports are valued on the basis of "Cost, Insurance, and Freight," or C.I.F. As a result of this practice an apparent mystery arises in the fact that the world's total figures of exports are less than the world's total imports. Obviously this is impossible, for it cannot be believed that more goods arrive in port than ever set sail. The Board of Trade explanation must be taken that the balance is to be accounted for by shipping charges; costs, that is to say, incurred after the goods have left any shore as exports. The Board of Trade in 1903, found an excess balance of the world's imports over exports of about $1,120,000,000. It was looked upon as representing freights, insurance, and certain incidental charges, such as harbor dues, cost of stores purchased abroad, etc. After making adequate deductions to cover these incidental charges and also the earnings of the ships of the British colonies, the Board of Trade arrived, as mentioned above, at a figure only slightly less than $450,000,000, as the share to be credited to the British merchant marine. It was probably clearly over $500,000,000 at the time of the outbreak of the war.

Another invisible credit, taking the form of earnings from abroad received by British commission houses, insurance companies, and other financial institutions, is estimated by Todd at approximately $100,000,000 for the year 1913.[9] He ventures the belief, based on independent investigations, that a further credit in favor of Britain, on account of the so-called "boarding expenses" chargeable against foreigners, roughly balances at $50,000,000 a year against a corresponding debit against Britain on account of expenses abroad of British tourists and other travellers.

On the side of invisible debits there is but one important item. It represents the outflow of new British capital seeking investment overseas. That this item should be counted a debit rather than a credit will at once be recognized if we bear in mind that a loan abroad conveys to the foreign borrower a claim on our goods or services. The outflow of British capital, during the four years 1910-13, inclusive, amounted, it has been estimated by the London "Economist," to about $850,000,000 per annum. In the opinion of Mr. Hartley Withers it amounted to $1,000,000,000 or more. We may therefore perhaps quite safely agree on the figure $950,000,000 as approximately accurate.

[8] Todd, The Mechanism of Exchange, p. 185.
[9] ibid.

Trade and Financial Balance Sheet

Let us now proceed to gather together the various invisible items along with the visible items of trade in the form of a balance sheet, based on the average annual figures for the years immediately preceding the war,

(Figures denote $ millions)

Visible Credits:		Visible Debits:	
Exports, home produce (annual average: 1911-14)	$2,371	Imports (total) (annual average: 1911-14)	$3,613
Re-exports (foreign and colonial) (annual average: 1911-14)	525	Imports of bullion and specie (annual average: 1911-14)	346
Export of bullion and specie (annual average: 1911-14)	282		
	$3,178		$3,959

Average annual excess of Visible Debits—$781.

Invisible Credits:		Invisible Debits:	
Interest on loans abroad	$ 650	New loans abroad	$ 950
Repayment of loans	500	Boarding expense charges	50
Shipping receipts	500		
Commissions	100		
Boarding expense receipts	50		
	$1,800		$1,000

Average annual excess of Invisible Credits—$800.

Thus we have secured inductive evidence from the experience of the United Kingdom in support of our contention, reached deductively in the first instance, that there must be an approximate equivalence for every country between total credits and total debits.

It is perhaps scarcely necessary to emphasize the obvious fact that both the invisible and visible factors alike have an effect upon the foreign exchange rate. Thus the overseas investment of $500,000,000 of capital in the course of a year would exert the same influence upon the foreign exchange situation as that imparted by the importation of $500,000,000 worth of foreign goods. This general truth appears clearly in a statement of Mr. Hartley Withers on foreign exchange operations. In his explanation of the variation in the price of sterling exchange, he states that "the only reason why anyone in New York should want to buy pounds in London is because he has payments to make on this side. He has money in hand in New York, but of course it is all in dollars, and he has to pay a debt in England, and in order to do so he must buy pounds in England with his dollars in New York, because his English creditor will, naturally, only take payment in pounds. The reasons why he may have to pay a debt in England are manifold. He may be the New York banker to a great American railroad which has a large number of its bonds or shares held in England, and has to remit hither to pay interest or dividends; or he may be an importer of English goods which he sells in America and pays for in England, or he may be the American father of an English duchess who has to remit her dowry, or he may be an Irish peasant, working and earning wages in America and sending home money to his father to help him to pay his rent. All the hundreds of reasons which make Americans pay money to England make them want to buy English money in New York with American dollars."[10]

The change which has appeared in England's balance of trade during the past century may be summed up on the authoritative phrase of Hartley Withers. Since the early years of the nineteenth century, "the account has been complicated," he declares, "by the growth of the amount that her debtors owe her every year for interest, and by the huge earnings of her merchant navy, which other countries pay by shipping goods to her, so that, by the growth of these items, the trade balance sheet has been turned in the other

[10] Withers, War and Lombard Street, p. 41.