THE BALANCE OF TRADE QUESTION.

BALANCE OF TRADE A LIVE QUESTION; ELABORATE BUT NOT ACADEMIC; DANGER OF ECONOMIC MISTAKES; EXCESSIVE IMPORTS A SOURCE OF TROUBLE; OLD IDEAS NATURAL UNDER OLD CONDITIONS; THE POWER OF GOLD; GOODS ALONE NOT ALL A COUNTRY'S FOREIGN TRADE; SECURITIES, ETC., IMPORTED AND EXPORTED; EXHIBIT OF CANADA'S FOREIGN TRADE, 1873 TO 1904, ETC.

"The balance of Trade" question is a perennial, it blooms for a time then dies away and re-appears as fresh and vigorous as before its retirement. The question is not so academic, nor so simple, nor a matter of such small practical importance as is commonly represented. As a powerful leading article in the London "Times" recently, said, "We, as a nation, may be beaten and reduced to a third-rate Power by mistakes in economics, just as easily, if not quite so dramatically, as by mistakes in war."

One of these economic "mistakes" which have created disastrous consequences in this as in other countries is, that, practically, it is a matter of little moment what the relation is between the exports and imports of a country as the balance will adjust itself by the operation of mutual, economic forces. This is quite true, but the process of adjustment may involve disastrous experiences. Excessive imports brought Canada, some years ago, into grave trouble. An adjustment was eventually reached after a fiscal storm which left the beach of trade strewn with wrecks.

Another "mistake" continually made, which indeed is assumed as a fiscal axiom by writers of a popular school, is, that the amount of gold held in a country is a matter of little moment. This idea is the extreme opposite of the old notion, that the financial strength and welfare of a nation were proportionate to its stocks of gold and silver. In reacting from the latter theory the pendulum of opinion has swung to the other extreme. We have only to watch the fluctuations in the Bank of England rate, which affects the great bulk of the world's monetary transactions, to see that the extent of the gold held by that bank of banks, that national treasury, is one of the controlling factors in the money market. One of the most disastrous panics of modern days was caused by the United States Treasury and banks being depleted of gold. The whole commercial fabric on this continent was shaken to its foundations by that panic. The root and source of the mischief were such balance of trade conditions as raised foreign exchanges against the United States to an extent and degree of persistence which naturally caused a drain of gold.

Strenuously as some theoretical writers contend that the imports of a country are a better indicator of its prosperity than its exports, any one who takes a business view of trade movements knows, that large imports may be disastrous to a country by locking up capital, by creating bad debts, by embarrassing banks through the over borrowing of merchants, by stimulating extravagant expenditures, by leading eventually to enormous sacrifices of capital owing to the throwing of unsaleable goods on the market in order to raise money at any cost.

Conditions which lead to excessive importations, such as heavy outlays on railway building, usually advance the prices of the goods imported, those conditions make money dear, then the conditions cease to operate, but the effects they have produced on the mercantile community, and on the public, continue for a length of time after their original force has been spent. Such conditions as stimulate excessive imports are unfavourable to the increase of native manufactured goods as they are apt to raise wages and engender labour disturbances. There may be thus an embarrassing situation created by the enlarged imports not being balanced by enlarged exports. This situation tends to a drain of gold, hence to dearer money, and further to bankers "putting on the screws," and to a panic breaking out, owing to confidence in mercantile credit being disturbed.

The fundamental mistake most commonly made in discussing "the balance of trade" is, restricting the word "trade" to imports and exports of manufactured goods, raw materials and natural products, overlooking another class of articles which are exchanged between different countries that materially affect their relative financial conditions. Those articles are, securities and other documentary evidences of and vouchers for debt. In the days when the precious metals were held to be almost the only visible form of wealth, there were no securities in existence such as those which are now held and dealt in to extent of thousands of millions of dollars. Nor were there banks in existence that issued foreign exchange bills which, in these days, play a leading part in the adjustment of foreign trade balances. It is easy to sneer at our ancestors for their alleged crude ideas about gold and silver, but, considering the fiscal and monetary circumstances of their days their notions were quite rational, indeed they were the logical outcome of existing conditions. The prominent part played to-day by gold in the settlement of the balances of trade proves, that the "Mercantile System" which is usually spoken of as an exploded theory, had, when it prevailed, at least one foot on the basis of fact.

Some fifty years ago, Mr. Hoare, then an eminent London banker, said. "The only proper means of bringing gold and silver into the country arise from the surplus of our exports over our imports, and that the ratio, or proportion which is not imported in goods, must be paid in bullion." In 1797