in the form of goods which appear in the customs returns of the exports of the lending country, and go to swell the statistics of exports for that year, without any corresponding entry of imports in payment therefor. There is, therefore, for the time being an apparent excess of exports by the lending country, and a corresponding excess of imports by the borrowing country. But in subsequent years interest will require to be paid on the loan, and at some future date it must be repaid either in a lump sum or by instalments spread over a period of years, and this repayment, whether of interest or capital, can only be made in the form of goods. . . . Thus the effect upon the borrowing country's balance of trade is to create in the year that the loan is raised, an apparent excess of imports which is balanced by the invisible export of the debt in the form of the loan certificates. But in future years the borrowing country's exports must be in excess of its imports, to an amount sufficient to meet the interest charges on the debt, which thus becomes an invisible import (of interest coupons) to that amount. Again, when the loan comes to be repaid, this also will tend to swell the exports of the debtor country for that year."[2]

So far, it will be noted, we have in our study of trade balances, considered but a single factor apart from trade in merchandise—namely, that of capital investments and payment of interest thereon. Were it possible to exclude all other influences the balance of trade would be determined in accordance with the foregoing principles. There are, however, several other important factors which must be taken into account and which will be considered in detail later. The most important of these, at least so far as Great Britain is concerned, is the service of ocean transport rendered by those countries possessing great fleets of merchant ships to those which possess little or no shipping. Another class of services is that rendered by marine and other insurance companies, commission merchants and the elaborate financial system, all of which facilitate the handling of foreign trade. Another factor, of importance to certain countries, is the item to which the term "boarding expenses" is aptly applied. This includes the expenditure of tourists and of others who have occasion to travel or live outside of their own country. Among other influences are the ebb and flow of immigrants, the seasonal and temporary migration of workers from one country to another, and remittances by immigrants or by others.

Before attempting an analysis of the trade balance of Great Britain let us revert for a time to a consideration of the meaning of the term "balance of trade." It has been stated that during the seventeenth century it was believed generally that a country should maintain an excess of merchandise exports over imports, to the end that its stock of the precious metals should be maintained if not augmented. An adverse balance, an excess of merchandise imports, was looked upon with apprehension. This attitude rested for its explanation on the importance attached to the precious metals by the early mercantilist writers. The extraordinary importance attached to gold and silver "was perhaps justified," declares Professor William Smart, "in times when there were no bankers; when Europe was starving for a sound currency, and industry hampered by the want of it. All countries took strong measures to attract and retain gold and silver; even Spain—the depot of these metals—prohibited their export under the most drastic penalties. When in time it was seen that such measures were useless, it was conceived that there was a more natural way of effecting the same object; if encouragement were given to exports while imports were handicapped, there would tend to be a 'favorable balance'—that is, the excess of value would come in gold and silver; hence bounties on exports and duties on imports."[3] Referring to this action, Adam Smith stated that "the attention of government was turned away from guarding against the exportation of gold and silver to watch over the balance of trade as the only cause which could occasion any augmentation or diminution of these metals. From one fruitless care it was turned away to another, much more intricate, much more embarrassing, and just equally fruitless."

[2] Todd, The Mechanism of Exchange, p. 181.
[3] Smart, The Return to Protection, p. 16.

The mercantilist view of the balance of trade has been discarded because of the gradual recognition of certain fundamental principles. In the first place, we look upon gold as something not to be consumed, but rather as a thing or instrument for facilitating trade. No longer do we think of associating the prosperity of a country with the per capita amount of gold possessed by that country. In the second place, it is now recognized that "every importation when it takes the form of a regular current, necessarily provokes and determines a corresponding exportation, and conversely."[4] This law of the balance of trade operates and exerts its influence in the first instance through the variation in the rate of foreign exchange and in the long run through its effect on general prices. We have here two automatic checks, in the rate of exchange and general prices, which will prevent a permanent or excessive flow of gold either into or out of a country. As a consequence, we have come to see, in the third place, that total exports and total imports of every country must approximately balance each other. The terms "total exports" and "total imports" are used advisedly. The most casual examination of the actual customs returns of exports and imports of any country will reveal the fact that they do not appear to bear out this law at all. The apparent discrepancy grows out of the practice of including among exports and imports only merchandise goods, and, at times, specie and bullion also. In the ordinary statement of foreign trade, no account is taken of the export and import of services, of capital, interest, boarding expenses, etc. In the interest of clearness, therefore, let us refer to these items as invisible exports and imports, as Sir Robert Giffen first called them. The term "visible" may quite naturally be applied to merchandise exports and imports. Now although merchandise, or visible, exports and imports are not likely to balance for any country, we may none the less rest assured of an approximate equivalent between the total (including both visible and invisible) exports and total (both visible and invisible) imports. Under normal conditions this must inevitably be the case on account of the operation of the automatic checks mentioned above.

In attempting to apply this principle to the foreign trade of the United Kingdom we are struck at once by the wide disparity between the value of merchandise exports and imports. During the six years preceding the war the average annual excess of imports over exports, in the United Kingdom, exclusive of bullion and specie, amounted to approximately $730,000,000.[5] It is at once evident that such enormous balances could never be paid in gold. It is the more significant when one recalls that this general condition of excessive imports has prevailed for decades. Thus, as we may note from the following summary, the excess of imports over exports steadily increased during the half-century prior to 1910.

TRADE OF THE UNITED KINGDOM[6]

(Gold and silver included)

| Year. | Average yearly excess of imports, million £ |
|---|---|
| 1855-60 | 34.2 ($171,000,000)[7] |
| 1861-70 | 63.1 |
| 1871-80 | 96.1 |
| 1881-90 | 97.6 |
| 1891-00 | 150.5 |
| 1901-10 | 161.3 ($806,000,000) |
| 1911-13 | 141.8 ($709,000,000) |

Save in the case of a country like South Africa, which produces gold, it is impossible for a country to be always importing more than it exports and paying for the excess in gold. We are led to anticipate therefore that in the case of the United Kingdom there must be a large excess of invisible exports or credits over invisible imports or debits.

[4] Todd, The Mechanism of Exchange, p. 132.
[5] Compiled from the Statistical Abstract for the United Kingdom [Cd. 9137], p. 75.
[6] Pulsford, Commerce and the Empire, Appendix 1.
[7] The British figures of trade have been converted at the rate of $5.00 to the £1.

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