thus invested amounted in 1914, to at least $1,500,000,000, yielding an annual income of $75,000,000. Deducting this from the interest payments that the United States had to make to foreign lenders, it will be seen that, prior to the war, the American people were subject to a net payment of about $250,000,000 a year to other countries for interest and dividends upon capital.

The other important invisible items may be briefly summarized. It was estimated in 1910 by Sir George Paish that the United States had a net balance to pay to other countries of about $170,000,000 a year on account of the expenditures of tourists and other citizens; that at least $150,000,000 annually was being sent abroad by people in the United States to friends and relatives; and that the net freight charges against the American Republic amounted to about $25,000,000 a year.[17] Although these several items had doubtless varied somewhat by 1913, yet, for our purpose of general illustration, the estimates of Paish may be used without incurring the risk of a large margin of error. The balance of trade may now be set forth.

APPROXIMATE BALANCE SHEET OF THE UNITED STATES, YEARS 1911-13

Visible Credits and Debits:	
Average annual excess of merchandise, gold and silver exports over imports (visible credits)	$563,000,000
Invisible Credits and Debits:	
Capital investments and interest payments thereon: annual net debit	$250,000,000
Tourists and other expenditures: annual net debit	170,000,000
Remittances to friends, etc.: annual net debit	150,000,000
Ocean freight charges: annual net debit	25,000,000
Average annual net (invisible) debit	$595,000,000

The resultant unexplained balance of $32,000,000 may be attributed, in part, to the margin of error arising from the use of Sir George Paish's figures of 1910 for the period of 1911-13, and, in, part, it may represent new investments in the United States of foreign capital.

It has already been mentioned that the trade balance of the United States was subject to a transition about 1873, and that again in the not distant future it is likely to undergo a further change. As is well known, the regular American merchandise import balance down to 1873, was attributable chiefly to the heavy annual borrowings from abroad by the United States. It is also true that, prior to 1860, the United States, as an important shipping and freight-carrying country, was in receipt of considerable payments in the form of ship earnings. Since 1873, American trade has been normally marked by an excess of exports. As already suggested, although borrowing abroad continued, sometimes on a great scale, the annual interest and dividends payable to foreigners on earlier loans came about 1873 to more than offset the new capital inflow. Moreover since the middle of the nineteenth century freight charges have become a debit item against Americans and remittances of immigrants and travelling expenses of Americans abroad have grown to large proportions.

That a further transition is likely to occur in the American trade balance in the years to come has been presaged by the growth of American investments abroad, even before the war. It is estimated that, during the ten years ending in 1906, approximately $250,000,000 of the securities of nine American railroads were returned to the United States from Europe.[18] In 1899, a large part of the four per cent. bond issues of certain Swiss cities was subscribed by two American insurance companies. The diversion of considerable American capital into the construction of London tube railways, the flotation of Japanese and Chinese loans in the United States, and the establishment of American branch banks in South America bear witness to this growing tendency of American capital to seek investment abroad. In 1914, it is estimated that American investments in Mexico surpassed $700,000,000 while in Canada they amounted to not less than $600,000,000. Recalling the estimate given above that at the outbreak of the war foreign investments in the United States amounted to $6,500,000,000 and American investments abroad equalled $1,500,000,000, it will at once be noted that the United States at that time was a net debtor nation to the extent of about $5,000,000,000. The net interest charges annually payable at that time by the United States amounted, it will also be recalled, to $250,000,000.

Since 1914, that country has become a creditor nation. It appears that the United States has bought back some $3,000,000,000 worth of American securities which were foreign-owned when the war began. In addition to this, American capital has been invested abroad during the past five years at an unprecedented rate. By the late spring of 1919, the United States government had loaned $9,500,000,000 to its allies and the total of private capital invested in other countries probably exceeded $2,000,000,000. Accordingly the United States has become a net creditor nation, with an excess of American investments abroad over foreign capital invested within its borders of approximately $8,000,000,000. As a result there is now a net interest payment of about $400,000,000 due annually to the United States. It is necessary also to bear in mind that through the war-induced expansion in shipbuilding in that country the pre-war debit on account of shipping charges is likely to disappear. Indeed it is quite conceivable that the United States may soon come to enjoy shipping receipts through foreign earnings of her own ships.

This altered status of the United States cannot fail to affect her position in world trade. At once the question arises as to its effect on her merchandise trade balance. The large excess of exports which for so many years has marked the American trade balance cannot continue unless some method be discovered for offsetting the growing volume of credits. Already American manufacturers and exporters have noted the financial obstacle in their path in the form of foreign exchange rates.

Thus the large excess of American exports to Great Britain has reduced the price of sterling exchange in New York to far below par and has kept it there for a long time. This fall in the rate of exchange on England acts, as is well known, as a check on exports to England and a premium on imports. Thus when London exchange with a par value of $4.86 is down to $4.30, it means that the Englishman's pound has lost 11.5 per cent. of its purchasing power over American goods. And conversely the American importer can buy English goods at 88.5 cents on the dollar. This condition obviously cannot continue indefinitely without reducing the foreign sales of the American exporter.

Commenting on the exchange relations between London and New York, the "Statist" declared during May of 1919, that the sterling exchange rate must continue to remain adverse to London, as regards the net movement of gold between the two countries, "until such time as we are in a position to pay off something like £1,000,000,000 which we have obtained for urgently needed imports, and which we are neither able to liquidate by means of exports from this country, by rendering services or by sending gold. Nor is this," it adds, "the whole of the story. We shall have to continue importing from the United States and importing from the United States on credit, because we are in need of food and certain raw materials for our manufactures which only the United States can supply. . . . We shall hope gradually to reduce our indebtedness to the United States partly by exports, which the state of exchanges should tend to assist, partly by services rendered, and partly by the large number of visitors who may be expected from the United States to Europe in the future."[19]

As is well known, the large pre-war excess of merchandise exports which normally marked the American trade balance has been enormously increased as a result of the war. Thus during each of the two fiscal years 1917-18, the excess of exports over imports amounted to over $3,000,000,000. In the fiscal year ended June 30, 1919, this export balance

[17] Paish, The Trade Balance of the United States (in the U.S. National Monetary Commission Publications).

[18] Ripley, New York Journal of Commerce, Dec. 6, 1911.

[19] The Statist, May 24, 1919.