

normal times a large surplus, which has been invested in securities and enterprises outside of this country.

"We may remark that the bases on which the Board of Trade returns are made up do not bring out accurately the excess of importations. The value of our exports is stated at f.o.b. prices, while the value of our importations is stated at delivered prices, including freight. As freights both outward and inward are largely earned by British ships, there is a large surplus of freight earnings which is a set-off against the excess of importations."

Normal Stock of Gold.

"The normal stock of gold in this country is not materially, if at all, larger than is required for working capital purposes, including a surplus which is considered sufficient to safeguard our gold standard. It has not been the practice to carry any considerable stock of gold as a provision for emergencies. These somewhat nicely balanced arrangements were rudely shattered by the outbreak of war, and the natural adjustment of exports and importations, governed by unimportant inflows and outflows of gold, which over a series of years about offset one another, was no longer effective. Our importations have increased, while our exports have greatly diminished, and an adverse trade balance has been more or less steadily augmenting during the past twelve months. Our increased importations were inevitable under the circumstances; our diminished exports in the earlier months of the war were the natural result of the dislocation of trade and commerce caused thereby, and subsequently our ability to export was greatly curtailed by the absorption of manufacturing power and labor for the production of war materials.

"For reasons already mentioned there is necessarily a limitation to the export of gold, and other alternatives must therefore be resorted to. There appear to be three available alternatives, and it is desirable, probably it is necessary, that they should be used co-operatively to secure the desired result.

Three Available Alternatives.

"First, the sale of foreign securities.

"Second, a correction of the adverse trade balance by importing less freely and exporting more freely.

"Third, the creation of a credit abroad, more particularly to pay for munitions of war.

"Referring to these alternatives in their order, the foreign investments of this country are very large and were officially estimated before the war at £4,000,000,000, but under present circumstances it is not a question so much of their amount as of their availability. We have not seen any reliable classification of these foreign investments, but they are of a varied character and to a large extent not readily realizable, especially in a time of crisis such as we have now to deal with. It is probably impossible, indeed, to realize any considerable amount outside of the securities domiciled in the United States, plus, it may be, certain investments in other countries, which American investors may be willing to acquire, and in this connection we presume that South American investments are likely to be more attractive to American investors than those in other countries.

American Securities Sold.

"It is well known that large amounts of British-owned American securities have been realized during the past few months. Sellers have been influenced by various considerations, such as the desire to invest the proceeds in the war loan, the wish to give effect to representations

from the British treasury that foreign investments should be recalled, and the inducement of favorable rates of exchange for remitting the proceeds of such realizations. It is probable that the most willing sellers have already disposed of a large part of their foreign securities, and that considerable progress has been made in selling these securities which are the most readily realizable; if so, the process of realization will now be less rapid. Large amounts are probably held by estates and trusts, and executors and trustees are as a rule averse to changing investments under their control. British insurance companies are also large holders of American securities, and the same remark applies in their case; besides, many of them are under obligations to hold investments in the United States. Private investors must also hold large amounts in the aggregate; it is hard to say what course they will take. We may add that it is quite possible that pressure may be brought in the form of specially heavy taxation on foreign investments, especially if it is thought that official representations to recall such investments are not being given effect to. The realization of foreign investments, more particularly in the United States—practically the only available market under present conditions—has doubtless deterred the fall in American exchange, but other steps must, we think, be taken to prevent a still further decline.

Fewer Imports, More Exports.

"We refer now to the second alternative—that of correcting the adverse trade balance by importing less freely and exporting more freely. It is probably impossible to export more freely under present circumstances, for the reason that our powers of production are so fully occupied with war work. The remedy therefore must be applied in the direction of reduced importations, and that emphasizes the necessity of economy and the avoidance of waste by the masses of our people both of imported and home-produced commodities; this, unfortunately, is a problem of very great difficulty.

"Full information with regard to the amount of the country's adverse trade balance does not appear to be available. The Board of Trade returns do not, we understand, include government importations, which have been very large, and seem likely for a time to be still larger; we imagine, however, that the necessity to import may be diminished by the increasing home production of munitions of war, and, further, it may not be needful to continue importing large supplies of what may be classified as permanent equipment, the supply of which was very deficient when war was declared.

Advance in Freights.

"The great advance which has taken place in freights should help to correct the adverse trade balance, and we doubt if the importance of this factor is sufficiently realized. As we have already mentioned, freights are included in the import, but not in the export valuations of the Board of Trade returns.

"Efforts are being made by sellers of American produce to sell in this country on sterling terms on a fixed exchange basis, fluctuations to be for buyers' account. It seems improbable that buyers in this country will agree to such conditions to any considerable extent; in what way can they in their turn protect themselves? The effect of these efforts will be to curtail exports from the United States, especially if competitive supplies can be obtained from other sources, and if this is not possible at present it probably will be a little later on. In any