

imported as well as to meet the interest charges upon the capital which it has previously borrowed. True, during the early stages of capital investment the lending country will normally show an excess of exports. Were these capital investments to extend over one year only, the excess of merchandise exports of the lending country during the period in question would approximately measure the amount of the capital loaned abroad. As time elapses, however, the total capital invested in other countries increases, although at a diminishing percentage rate, while at the same time the annual interest charges owed to the creditor nation show a more than corresponding percentage increase. Eventually, the time will arrive when the annual payments which the lending country receives as interest on its foreign investments will exceed the new and additional capital which it may lend each year. The same reasoning may be employed to show that the borrowing country, during the early stages, will normally import a larger amount of merchandise than will be exported, and that here too the passing of time brings in its wake a change in the trade balance. Ultimately the annual interest payments of the borrowing country on account of capital previously obtained will surpass in amount the new capital which it borrows each year. Thus, in the end, its merchandise exports will overtake and then exceed its imports.

Classification of Countries

From the foregoing summary therefore we note that on the basis of their capital investments and trade balances there are four general groups of countries. They are as follows:—

1. Countries which have begun to invest capital abroad in other lands. These we may call the immature lending countries. Their trade will normally be marked by an excess of exports. England during the early years of the nineteenth century typified this group. At that time she regularly exported goods to a greater value than she imported. These represented the goods she was lending abroad. The United States during recent years may also be considered an immature lending country.

2. Countries which have in the past invested abroad so large a volume of capital that the annual interest payments thereon owed to them exceed the new and additional capital that they may continue to lend each year. These we shall designate as mature lending countries. Their trade balance will be marked normally by an excess of imports. England for a half century or more has been the great example of this type of country. And we may anticipate that in the not distant future the United States, having become a mature lender, will find her trade balance marked also by an excess of imports.

3. Countries which are in the habit of borrowing capital from abroad, but whose volume of capital thus borrowed is not so large that the resultant annual interest charges thereon shall equal the new and additional capital that they may import each year. These countries, the immature borrowers, have trade balances marked normally by an excess of imports. Canada, prior to 1914, was in this stage of borrowing. The United States, likewise, prior to 1873, was in the same stage.

4. Countries that have borrowed from abroad so large a volume of capital that the annual interest charges exceed in amount the new capital that they may annually procure from abroad. To such countries we may apply the term mature borrowers. Their balance of trade will show an excess of exports. India typifies this group. The United States reached this stage about 1873, and has recently, largely as a result of the financial operations of the war, emerged therefrom into the position of the immature lending country. Canada is now passing from the condition of an immature borrower to that of a mature borrowing country.

The above classification may perhaps be made more clear by an analogy from the field of individual investment. Let us imagine the case of an eccentric investor, A, who determines to purchase one one-hundred dollar bond of a corporation, X, each year for an indefinite period. Let us assume that the interest payable annually on the bond is at the rate of 4 per cent. During the first year, therefore, under these

circumstances, A will invest \$100 in the securities of the corporation, and in turn will receive \$4 in the form of interest. During the second year A's investment again is \$100, while his interest now amounts to \$8. In the twenty-fourth year A's investment is still \$100 but his interest return now has reached \$96. From the twenty-sixth year onward the annual interest payable to A is obviously larger than his new annual investment, and increasingly so.

In applying the analogy it is of course recognized that the use of the terms "mature" and "immature" as attached to investors and borrowers is arbitrary. Yet such use, even in a restricted sense, is not without merit. The term "mature" is used as a convenient substitute for the clause "in the later stages," while the term "immature" implies "in the earlier stages." We may therefore consider our investor, A, an immature investor or lender during the first twenty-four years of the hypothetical transaction. During this period A's new annual investment exceeded the interest which he annually received. In and after the twenty-sixth year, A became a mature investor. His new investment each year was now surpassed by the annual interest received by him. It is in this sense that England is referred to above as an immature lender during the early years of the nineteenth century and as a mature lender in recent decades. Likewise, Canada's status as an immature borrower prior to 1914 may be likened to the position of corporation X during the first twenty-four years, a period in which the corporation borrowed, or obtained, from A a larger amount of capital each year than the corporation was called upon to pay to A in the form of interest. Henceforth for an indefinite period Canada may be looked upon as a mature borrowing country; in the same sense in which corporation X became a mature borrowing concern in the twenty-sixth year, from which time onward X borrowed, or obtained, from A a smaller amount of new capital each year than the volume of interest payable to A.

It is of course recognized that in the ebb and flow of international capital investments the process of lending and borrowing does not proceed on so uniform and arbitrary a basis as that depicted in the above transaction. The volume of capital which a country may lend or borrow varies from year to year and the interest rate is not uniform on all loans. And, moreover, the same country may engage in both lending and borrowing operations. Yet the essential fact remains that in the career of a lending country a time will be reached sooner or later when the new capital loaned abroad each year will be equalled and later surpassed by the amount of interest payable annually to that country on account of its earlier foreign investments. By the same form of reasoning, the point will be reached some time in the career of a borrowing country when the new annual capital borrowings will be surpassed by the volume of interest payable abroad on the capital already imported.

How a Loan is Made

In view of the importance of international borrowing and lending as a factor in the determination of the balance of trade, let us consider more concretely the manner in which the lending of capital overseas works out its effects. The vast sums of capital invested by England in India, Egypt, the United States, the Argentine Republic, etc., for railway development, harbor construction, irrigation works and other purposes are now represented by national or private debts of all kinds, such as government stocks and bonds, railway and land companies' shares, and all other forms of public and private indebtedness. "The method and the effect of the creation of these huge items in the balance sheet of nations are," we are reminded by Professor Todd, "of a double character. When, in the first place, a loan is raised in London, say, for the construction of an Argentine railway, the amount of the loan is not exported in boxes of gold to the borrowing country. As a matter of fact the bulk of the money never leaves England, but is simply placed to the credit of the foreign government, or company, in the books of the Bank of England, from which it is almost immediately paid out again in the form of cheques to the engineers or bridge builders who have already supplied the goods for which the loan was intended to pay. Thus the loan is given