for a flow of gold from America abroad have disappeared. We used to owe Europe a huge balance of interest payments upon American securities she held. The situation is reversed to-day. Moreover, Europe must pay us money for the materials we will send her for reconstruction, or at least pay us interest on credit we will extend her. Thus our exports will probably exceed our imports during the reconstruction period. We used to pay ocean freight money to foreign carriers; to-day the American merchant marine will keep in American hands tens of millions of dollars of ocean freight money. The huge volume of American tourist travel abroad, for whose expense we had to settle, has stopped and can not resume for a year at least. For all these reasons the lines are laid for a movement of gold from Europe here rather than a movement of gold from America to Europe.

"Yes, but," people say, "wait until trade is resumed between the United States and Europe, then surely 'low-priced European goods' will flow over here in such enormous volume that they will liquidate all annual obligations to us in goods." Ultimately Europe must pay her obligations to us in goods, but it will take many years. Meanwhile she needs our tools, machinery, and raw materials for immediate reconstruction.

At the present time European goods are not "low priced" (however little money wages of European labor buy). Prices in Europe since the war began have risen more than they have in the United States. The price rise has been less the farther from the seat of hostilities. It was least in Australia and New Zealand. It was next least in the United States, Canada and Japan. Then came neutral Europe; then our present allies; and finally Germany and Russia. Gold tends usually to flow from high-priced countries to low-priced countries, so that until "inflated" European prices fall gold is not likely to flow thither. Prices are no more likely to fall there than here, and for the same reasons.

3. Reduction of outstanding credit.—The chief dependence of those who predict lower prices is on a reduction of the superstructure of credit resting upon our gold rather than on any reduction in the volume of this gold itself. They look for a contraction of bank credit, a reduction in the volume of deposits subject to cheque, which circulate throughout the country.

But the main cause for the present extension of bank credit is the liberty loan, and there is soon to be another. Subscribers for the new loan will not pay for their bonds in full any more than they did in the previous cases, but rather less. Many of them will deposit the bonds with the banks as security for loans to be repaid later. The effect on our circulating medium will be the same as if the Government were to impose a levy of $6,000,000,000 of credits upon the federal reserve banks, and then order them to apportion these credits out among the banks of the country. This process will certainly lead to an expansion of credits. The former issues of liberty bonds are still carried by the banks to a considerable extent. It may be contended that the banks credit expansion represented by the new victory notes has already occurred in the form of treasury certificates, which are merely to be funded by the victory notes. The victory note issued thus represents only a shifting of the obligation to pay credits advanced to the government, a shofting from the shoulders of the banks to the shoulders of the victory note buyers. The volume of outstanding bank credit remains the same. To a certain degree this contention is true. But a portion of the April victory note issue will go to pay future expenditures, not accrued expenditures. Then as soon as the Government needs additional money, it will issue new treasury certificates, resulting in new extension of bank credit. Moreover, there is little doubt that there will be at least one more government bond issue during the reconstruction period, and this will tend to further increase our present credit structure.

The banks must lend credit and create deposits to meet the expenditures not only of our own Government, but of foreign governments as well. The same thing results even if these governments are served directly by private investors here instead of via the United States treasury. These investors pay for foreign government bonds as they do for our liberty bonds—on the instalment plan—paying a small part down and borrowing the rest from the bank. This increased purchasing power will be mostly spent in this country for supplies to be sent abroad for rehabilitation. This continuance of vast loan issues, connected with war and reconstruction throughout the world, is a factor which will maintain the high price level temporarily, which means many months.

It is also worth keping in mind that liberty bonds and other government securities held here do not wholly cease being a source of credit expansion when the individual subscribers have completed their payments on the bonds and

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