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THE BALANCE OF TRADE.

By Thomas G. Shearman.

Of all popular delusions none seems more persistent than that which relates to the balance of trade. Not only uneducated people, but also merchants, bankers and capitalists of all kinds, study the returns of our national commerce with other countries with constant anxiety as to the "balance of trade" and the "drain of gold." If these returns indicate that we are receiving more wealth from foreign lands than we are sending to them, our rich men tremble and the learned editors of the newspapers raise a solemn voice of warning. But if it seems that we are giving to foreigners a few millions every year in excess of what we receive, everybody is happy. Paying out more than we take in is called a "favorable balance of trade." Receiving regularly more than we pay out is called an "unfavorable balance."

Why it should be esteemed disastrous for sixty million people to receive from other nations sixty million dollars' worth of good things, without paying anything for them, while it is admitted to be a great advantage to each one of the same persons to receive as many good things as he can possibly get without paying for them, is a mystery which is never explained. If, as a nation, we make a profit upon our foreign trade, we shall certainly import more than we export; just as any American merchant, who should sell a cargo of wheat for \$10,000 more than it cost him, would import foreign goods to the amount which his wheat cost, plus \$10,000. Yet the very merchant who would rub his hands with glee over such a transaction of his own would be encompassed with anxious gloom if 5,000 similar cargoes should be sent out at the same time, with the same results, because, forsooth, "the balance of trade" would be \$50,000,000 "against the United States."

The reason, such as it is, which is given for mourning over a supposed "adverse balance of trade," that is, over figures which, if correct, would prove that we are getting greater value than we give, is that the excess of imports in excess of the amount to which we are running into debt, instead of the profit which we are making on trade. But this reason will not stand examination. The most prosperous and wealthy nations in the world are exactly those

which always have the greatest "balance of trade against them." England has had a heavy balance "against" her every year for over forty years, and during this period she has not only run into debt but has increased the debts of other countries to her to an enormous amount. It is only poor countries, where the people are robbed by their rulers, which have a steady "favorable balance of trade." For it is only people who are robbed or swindled who go on, from year to year, giving to foreign nations more than they get in return.

Last year, ending June 30, 1890, we received from Brazil goods to the value of \$47,000,000 in excess of all which we sent there. A distinguished statesman gravely declared that this meant that we had actually lost \$47,000,000 on our year's trading with Brazil. He therefore urged the absolute necessity of increasing our trade with Brazil. But in the same year we sent to Great Britain goods to the value of \$261,000,000 in excess of what we received from her. If we lost \$47,000,000 by trading with Brazil, we made a clear profit of \$261,000,000 by trading with Great Britain. Yet that same statesman has done everything in his power to persuade our people to cease trading with Great Britain and to force our trade towards Brazil and other South American countries, where, as he pretends, we now "lose" such vast sums.

The truth is, of course, that we neither lose nor gain either of these great amounts. We imported, in 1890, from Brazil, the West Indies, the East Indies and a few other countries, goods to the amount of \$261,500,000 in excess of all that we exported to them. We exported in the very same year to Great Britain goods to the amount of \$261,400,000 in excess of all that we imported from her. British merchants sent to Brazil, the two Indies, and the other countries which were our creditors, British goods to this amount, thus settling the British debt to us by paying our debts to other countries. This process went on every day in the year; so that Great Britain always owed us just about as much as we owed all other countries put together, and was always paying her debt, as fast as it was incurred, by paying our debts for us.

It seems to be commonly supposed that, when we buy from countries like Brazil millions more than we sell to them, we pay them the difference in gold or silver. But we do nothing of the kind. We sent only a few dollars to Brazil. While we bought from countries south of us \$112,000,000 more than we sold to them, we were so far from paying them in gold or silver, that we actually received from them about \$12,000,000 more of these than we sent to them.

These immense sums are never paid in money to any important extent. Roughly speaking, we ship merchandise, such as cotton, grain, provisions, etc., to the value of nearly \$16,000,000, every week, mostly to Europe, and especially to Great Britain. We import about the same amount every week, mostly from other countries than Great Britain. -- nine-tenths of all this

commerce is settled for us by London bankers. Our merchants draw bills of exchange on London for about \$15,000,000 every week. Not one in a hundred of these bills is ever paid in gold or silver. Nobody ever wants to collect them in this way. These bills are sold in New York to London bankers, who find, when these bills reach London, that agents of Brazilian and other merchants stand waiting, holding claims against American merchants for \$15,000,000, and anxious to buy British goods in exchange for these American debts. So the British merchants, against whom Americans have drawn these bills, arrange through London bankers to give our creditors \$15,000,000 worth of British goods; and thus, without the payment of a dollar in actual money, the British debt to us is paid by delivering British goods in payment of our debt to our South American and other creditors. Thus, week by week, all these vast transactions, amounting to \$800,000,000 in a year, are settled for us in London, generally without the use of as much as ten cents in actual coin for each hundred dollars in value. This process, which goes on continually in London, is what is called "clearing," and it is for this reason that London is justly said to be the clearing-house of the world.

We read about great foreign loans made by England and we often imagine that such loans are made by English bankers sending abroad great sums of gold or silver. But this very seldom happens; so seldom that, whenever it does occur, the fact is specially cabled all over the world as something very startling, and indicating danger. More than nine-tenths of all these loans are made by sending British made goods to the amount of the loan. When we read of British capital being invested here, it always means that British goods to that amount, in addition to what would otherwise come, will be sent here. It is impossible that Britain should send any capital abroad in the form of gold, because she has none in her soil. There is no such thing as British gold. It is all American or Australian gold, which has been sent to Britain. It is said that a few ounces of gold have been discovered in Wales; but there is not enough native British gold to fill the Queen's teacups.

It may be inferred from all this that it would be a grand thing for this country if the balance of trade could be heavily "against us" all the time; that is, that we should continually import goods of much greater value to us than the value of all that we export. For, if such were invariably the fact, it would mean that we were making, every day, great profits upon our foreign trade. An "adverse balance" of \$30,000,000 a year upon our present commerce would mean an average profit of ten per cent., which is probably too good to be true. Fortunately for us, no matter what the official returns may say, we do not now import more in value than we export in nine years out of ten. And, with rare exceptions, it will be found that the balance of trade has been "adverse" to us in every year in which we have been decidedly prosperous.

But-official returns of trade are far from correct; and they gen-

erally understate the amount of the "balance against us." Immigrants and returning travelers bring in many millions' worth of good things, of which no record is kept. There are strong inducements to undervalue imported goods, while there are no similar inducements to undervalue our exports. The profit made by the consignors of foreign goods never appears in the returns; but that profit is part of the value of the goods to us. On the other hand, the statements of our exports are very carelessly made up. There is no particular motive for false statements, but also no particular inducement for painstaking in such matters. Each exporter puts his own estimate on the value of his goods; and this is more often too high than too low.

It is a comfort to know that, no matter what "statesmen" may say or do, or how ignorantly even merchants and bankers may talk upon a question which they ought to understand, but rarely do, the balance of trade will forever be "against us." In other words, we shall always get, in exchange for what we give, something which is of far more value to us than what we gave. We shall not, as a nation, cease to make a fair profit upon our dealings, simply to suit the owlish wisdom of small men in high places.

Nature her custom holds,
Let fools say what they will.

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