

## NOTE ON THE EXCESS OF IMPORTS OVER EXPORTS.

In the foregoing remarks on Free Trade and Fair Trade I have omitted all reference to the excess of our Imports over our Exports, because I believe that until it has been traced to its proper source it does not bear on the question of Free Trade and Protection at all. The phenomenon is in fact one which may arise from several different causes, some indicative of national prosperity and others of the very reverse. In the first place, it may be noted that the same phenomenon may present itself in the case of both of the countries which are concerned in any particular branch of traffic. It is quite possible that the value of our Imports from Australia might be £25,000,000, and that of our Exports £20,000,000, while Australian statistics exhibited the very same figures. For, with the addition of freight, interest, and insurance, the goods which were worth £20,000,000 when they left our shores might be worth £25,000,000 when they reached Australia; while the Australian goods, which are worth £25,000,000 when they arrive here, may have been worth no more than £20,000,000 when they were shipped at the antipodes. The present excess of our Imports over our Exports on the whole, however, is too large to be accounted for in this manner, and other explanations must therefore be sought for. Some people seem to imagine that we must pay the difference in money—that is, in precious metals. But when precious metals are included in the returns of Ex-

ports and Imports this explanation is evidently incorrect ; while, even if they were excluded, it is certain that the precious metals are not being exported at a rate capable of accounting for the difference. That such an exportation of precious metals is not desirable may, I think, be conceded ; for, having no great mines of gold and silver in this country, we get our precious metals from abroad, and unless when an oversupply is accidentally received we only import enough to supply our own wants. If we reduced this quantity by exportation it would, I think, be a symptom of increasing poverty—a proof that we could not afford to use so much of these metals as we were using before.\* Even from this point of view, however, as we could not restore a man to wealth by preventing him from disposing of his gold and silver plate or parting with the money in his purse, so we cannot restore a country to prosperity by preventing it from parting with its gold and silver. It is clear, however, that we are not paying for the difference in value between our Imports and our Exports in cash ; but one cause of the excess of the former may be that we are running in debt, or rather bringing over foreign capital for investment. If foreign capital was being invested in this country there would naturally be a large excess of Imports over Exports while the investment was going on. If ten millions of French capital was invested in this country last year, the Imports from France would increase relatively to the Exports by

\* The same effect, however, might be produced by a larger circulation of paper money.



ten millions (assuming no French capital to have invested during the preceding year). But this investment of foreign capital again might arise from different causes. It might arise from the fact that England was in so prosperous a condition as to afford the best field for investment; or it might be that our own capitalists were in such difficulties that they were willing to borrow foreign capital on almost any terms. However, there are many other possible explanations of the same excess. It might arise from the interest of English capital already invested in foreign countries. This, again, is rather a mixed symptom. Foreign investments of English capital may have arisen either from its superabundance or from the difficulty of obtaining any profitable method of employing it at home. Of course, while this investment of English capital abroad was in progress, there would be a relative excess of Exports over Imports, but after the investments had ceased, and while the investors were simply drawing the interest or dividends on the capital invested abroad, this condition of things would be reversed, and the Imports would exceed the Exports in more than the ordinary proportion. This excess, however, would be still further augmented when the English capitalists were recalling a portion of their foreign investments. This latter process would have exactly the same effect as the investment of foreign capital in England, and it might be caused either by the abundant opportunities of effecting good investments in England or by the fact that the English capitalist found his home capital so reduced

that he was compelled to recall what he had invested elsewhere.

The argument from the excess of Imports over Exports is thus of very little force either way. But, on the whole, I think the present large excess cannot be regarded as either in itself beneficial or as a symptom of prosperity. It cannot be accounted by the freight, insurance, and interest on the goods exported and imported; nor do I think it is fully explained even when the interest and dividends on foreign investments are added. Even if this explanation was sufficient, it would imply that foreign investments of English capital had ceased, and as this cessation does not arise from the greater abundance of profitable investments at home, it indicates a diminution of national prosperity. But to explain such an excess of Imports over Exports, as we actually experience, I think we must admit that a transfer of capital from foreign countries to England is, or at least recently was, in progress; and this, I believe, arises from English investors recalling their foreign capital in order to fill up the gaps in their home capital which have been caused by the depression of trade. This undoubtedly is not an evil in itself, but rather a mode of mitigating existing evils; but then it is a symptom not of prosperity but of depression. The advantages or disadvantages of international trade, however, depend much more on the quantity than on the value of the goods which are exchanged. Suppose that our trade with China is carried on by an exchange of cotton goods for tea, we might in consequence of a

bad tea crop have to give twice as much cotton for the same quantity of tea in 1885 as in 1884, and yet the value of the Imports and Exports might continue to bear exactly the same proportion to each other as before. Moreover, looking merely at the pecuniary values, both Exports and Imports would probably appear to have increased, though in reality the former had done so while the latter had fallen off. There would be nothing in the figures to indicate that the terms of the exchange had become less favourable to us; and the effect in question might be produced not only by a bad tea crop but by the Chinese Government imposing a heavy duty on the exportation of tea or on the importation of cotton. It is idle to suppose that foreign countries would sell us £400,000,000 worth of their goods for £250,000,000 worth of ours. Provided that we select the proper place and time for estimating values,\* the value of what we sell to other countries must always be equal to the value of what we buy from them; and whenever this rule is apparently departed from, one or other of the contracting parties is either incurring or paying off a debt, or else paying or receiving the interest on a debt. As long as the trade goes on, no Export or Import duties will affect the equality of values; but these duties may most seriously influence the proportions in which the productions of one country

\* The place and time should be taken during the transit. Thus, for England and America, the middle of the ocean would probably be the place of equal values. If there was no indirect trade between the countries, the value of Imports and Exports would here be equal, supposing that no debts had been, or were being, incurred on either side.

will exchange for those of another. The important question is not, Is the price of what we are getting equal to the price of that which we are giving for it? for, subject to the qualification already referred to, this must always be the case. It is rather, Are we getting a fair price for what we sell and procuring what we buy at a fair price?

Reciprocity, let me add, is a different thing from retaliation. The latter aims simply at injuring other countries, who have injured us by their restrictions. The former aims at deriving as much revenue as we can from the products of those other countries, which try to derive as much revenue as they can from our products. It simply lays down that, in regulating our system of taxation, we are to have regard to the conduct of other countries towards us—to avoid pressing on those which treat us liberally, and to throw the weight of our Import Duties on those which have adopted tariffs hostile towards us. But I do not contemplate either retaliation or reciprocity as permanent states. They are merely modes of bringing other countries to their senses and arriving at a settlement of difficulties. War, as a permanent state, is eminently undesirable, but it is sometimes necessary as a means to an end. It is the same thing with a war of tariffs. It is only defensible as a means to an end. The war of tariffs, however, already exists. Other nations have by their tariffs declared war on us. Are we to submit or to resist? When some distant and puny chieftain makes war on us, we would often suffer less by allowing him to do us all the

mischief in his power than by sending an expedition against him ; but as a rule we send the expedition nevertheless, and probably if we did not, we should soon have a dozen petty chieftains on our hands instead of one. I see no reason why the same rule should not be applied to hostile tariffs. If the foreign State which adopts them denies that they are hostile, it cannot charge us with hostility in adopting a similar course ; and if it confesses that they are hostile, how can it quarrel with us for meeting hostility by hostility ? If we leave food-producing countries, for instance, under the impression that we are so anxious to procure cheap food that we will allow them to tax our exports to any extent without imposing any tax on the food which we import from them, can we feel surprised at finding that our exports *are* heavily taxed ? And I doubt if the taxation would be as heavy, if these powers believed that there was any serious danger of retaliation.