such Democratic leaders as Tom L. Johnson and William J. Bryan.

"FAVORABLE" EXPORT BALANCES.

Many years ago a conservative old gentleman of New York mentioned the Journal of Commerce as his favorite newspaper. "News paper! news paper!" exclaimed a friend, a young man of the new school of journalism; "what news do you look for in the Journal of Commerce?" The old gentleman replied: "I am interested in insurance, and I take the Journal of Commerce to get the news of fires." The young man thought he had his friend in a corner. "But in the Journal of Commerce," he argued, "you don't get news of a fire until it is three or four days old." "Possibly," was the old gentleman's retort, "but when I do get it I know it is true."

This reputation of the staid old Journal of Commerce appears to be no more true of its news service than of its editorial opinions, for, slow as it has been at discovering the debilitating effect upon a country of a continuous "favorable" balance of trade, a constant excess of exports over imports, it has discovered the truth at last and is demonstrating it with irrefragable logic.

As the same subject is familiar to readers of The Public (vol. i, No. 42, p. 5; vol. ii, No. 94, p. 5; vol. iv, pp. 51, 165;) they will be interested, no doubt, in noting the leading points which the Journal of Commerce makes.

The main point for which it contends is that—

in the mere traffic in commodities, the simple exchange of the products of one country for those of another, there is no advantage in an excess of exports over imports, but rather the contrary, inasmuch as exportation consists in sending objects of actual wealth out of the country, and importation in bringing them in, and there is gain in acquiring wealth rather than parting with it, for a nation as well as an individual.

In elaboration of this point the following brief clear and sound statement appeared in the leading editorial of the issue of the paper in question of March 23:

It is to be remembered that wealth consists of the products of a country's resources and industry for the use and enjoyment of its people, including the equivalent products obtained in exchange for any part of them, and that money and credit are not in themselves objects of acquisition and accumulation, but only means of effecting the exchange of articles of actual wealth.

After straightening out some of the mental confusions into which those who think of perpetual balances as "favorable" are apt to fall, the Journal of Commerce proceeds to describe the trade-balance condition of a country which has passed the borrowing stage and paid its trade debts. Such a country, it explains—

necessarily becomes a country that imports more than it exports, because it must take its pay, its interest, its dividends, its profits in what other countries produce. Is this a disadvantage? Is the excess of imports an "unfavorable balance?" This is the condition Great Britain has long been in through the high development of her resources and industries at home and the application of accumulated capital and surplus energy abroad. One of our critics says she is "sapping her capital and growing relatively poorer to the extent of her $1,000,000,000 yearly adverse balance." That is an admirable illustration of what we mean by the confusion of mind that comes from the old, exploded fallacy that the benefit of foreign trade consists in selling more than you buy and getting money for the excess. That depends. Normally benefit is rather in buying more than you sell, in the sense of being so situated as to get larger value than you part with in the objects of wealth. That $1,000,000,000 a year comes to Great Britain in imports to pay for her shipping, her banking, her insurance, her fetching and carrying and doing in other countries with her capital and enterprise, and in returns upon loans and investments abroad. Is this a disadvantage? Is it a sign of poverty or of having capital "sapped" and growing relatively poorer? It does not seem so to us.

The Journal of Commerce admits that "the relative advantage of being a debtor or a creditor nation may depend upon circumstances." That is true in a sense and temporarily; by which we mean that a debtor country, like a debtor man, is benefited by an excess of exports which goes to the extinguishment of its debt, and so long as the debt remains unpaid. But it is not benefited any more than a man would be, by continuing to export more than it imports after it has fairly paid for its borrowings, except as the excess may be investments. Such is evidently the thought in the mind of the editor of the Journal of Commerce, for he concludes in these words:

What we contend for is that in the mere matter of trade, of the exchange of the products of one country for those of another, there is advantage and may be profit for both; there is gain in wealth from volume of trade and not in mere excess of exports.

On this subject we are favored by Mr. Michael Flurscheim, a German protectionist of large business experience, with a serious defense of the "favorable" balance of trade theory. It is in the form of a criticism of a speech by the Rev. Robert C. Bryant, recently reproduced in these columns (vol. viii, p. 686). Mr. Flurscheim says of the speaker that—

he has entirely mixed two absolutely different modes of doing business: Barter, and trade through the intervention of money. In barter, the goods obtained (the imports) are really an access of wealth; while the goods given in exchange (the exports) are wealth spent. It is totally different, however, where, as is usually the case in our time, the transaction is made on a money basis, even if no actual money intervenes. In this case, selling (exportation) does not imply the parting with more wealth than is obtained in return through buying (importing), where the money amount of the sales exceeds that of the purchase. It may, and generally does, mean, that less wealth has been paid out than was obtained in return. When glass beads to the amount of $1,000 are sold to a firm at Timbuctu, and ivory to the amount of $800 is taken in payment, it may mean that a certain quantity of ivory which represents more wealth than the glass beads in the bead exporting country, was imported into the same; while it also may mean that a certain amount of beads representing more wealth than the exported ivory, to the ivory exporting country, found its way there. Let us now suppose that, seduced by this profitable business, which besides leaves a cash balance in his favor, at Timbuctu, the bead exporter buys on credit more ivory than he can sell beads, running into debt for the amount in Timbuctu. More wealth still has been imported than was exported, and it is even probable that the ivory importer may not suffer by the operation, as he can easily obtain money enough to pay his debt abroad; but it is quite sure in such a case that the financial balance of his country has been disturbed to the amount to which his debt abroad exceeded his exports of beads. In which way this financial deficit is adjusted, whether through the export of silver or gold, or, as is the rule, through the shiftings of international indebtedness, is immaterial; the fact remains that the two nations are now exactly in the case of an individual whose expenditure is greater than his income. There are many such individuals who get into calamity in the same way in which the indebtedness of the ivory importing country arose, i. e., by buying more wealth than they can manage to sell. It is well known that most of our commercial bankruptcies arise in this very manner. A merchant buys more goods than he can temporarily dispose of, because the goods are exceptionally cheap. His wealth possessions have thus decidedly increased; but the banker who presents the note signed by him has no use for these cheap goods and throws him into bankruptcy, because through the inability to raise cash just at this juncture the bill cannot be met. Nations get into the same predicament. New Zealand, for instance, owes England at present £100,000,000. During the 60 years while this debt accumulated the country made good use of the goods and services bought for the money, so that her wealth, which may be assumed as nil at the beginning of the period, is now estimated at £200,000,000, including her land values, which form one-half of the amount. Would this prevent her from becoming a bankrupt if in consequence of a general financial crisis her creditors insisted on cash payment? Would her wealth realize an amount sufficient to pay for her debt? Those who have watched financial crises, who have seen how at such times assets often do not realize more than a fraction of their book value, know how extremely doubtful solvency would be under such conditions, just as doubtful as that of our merchant with his great accession of wealth in the shape of cheap goods which have to be sold far below cost to meet his bills?

Accordingly Mr. Flurscheim concludes that—

the intervention of money, consisting of a scarce commodity, whose value at certain times exceeds that of all other commodities, is responsible for the error—

the error that it is an economic fallacy that a nation prospers when her exports exceed her imports and that a man is not in good circumstances if his expenditures are greater than his income.

It will be observed that Mr. Flurscheim agrees that in barter it is excess of imports or income of goods, and not excess of exports, or outgo of goods, that implies prosperity either for a nation or an individual. But he urges that when money intervenes as a medium of trade an excess of exports in terms of money may not, and usually does not, imply an excess of exports in goods.

If this is a true interpretation of Mr. Flurscheim's argument, his argument begs the question. Those who set up the "favorable balance" theory assume and assert that excessive exports in terms of money means excessive exports in the form of goods. To deny that, is to deprive their theory of all practical importance.

We are not familiar with the trade phenomena relative to glass bead countries and Timbuctu, but we had never supposed that glass-bead exporters were accustomed to carrying to Timbuctu beads costing $1,000 at home and exchanging them for ivory worth only $800 in Timbuctu. We had rather supposed that something like $50 worth of beads, more or less, in the values of the home country, were priced at $800 in Timbuctu, if traded there for $800 worth of ivory. However this may be, the trading of glass beads for ivory in Timbuctu does not appeal to us as a good example of civilized commerce.

Common examples of trade between England and the United States seem preferable; and we submit that it would be unthinkable that Americans should continuously export to England American goods worth $1,000 in New York and exchange them for English goods worth $800 in Liverpool. Nor are we able to believe that Americans would be seduced by the possibilities of trading on those terms, to buy English goods on credit. It is impossible to suppose that, in regular course of trade, English goods worth $800 in Liverpool could be brought to New York and sold for enough to pay for the landing in Liverpool of American goods worth $1,000 in New York, and leave a very seductive profit.

As to Mr. Flurscheim's calamity illustrations, we do not regard commerce as depending upon calamity as a steady regulator. Calamities do disturb the regularity of commerce at times; but they do not determine the regularity of its movements nor the general character of its phenomena.

Despite all disturbing influences, and whether money or terms of money intervene or not, trade is essentially the barter of goods for goods, and in the long run an excessive outgo of goods must impoverish, and an excessive income of goods enrich the trader, be that trader an individual or the people of a nation considered as a unit.

It is unnecessary, however, to make this discussion academic. The practical question is the effect on the people of the United States, considered as a unit, of the steady excess of exports over imports which is indicated by the statistics of this country.

From 1834 to June 30, 1904, the excess of American exports (or outgo), over American imports (or income), measured in terms of money, is reported (vol. vii, p. 248) at the enormous sum of $6,292,221,900. Since that time there has been added (vol. vii, p. 810) $340,170,222, making a grand total of excessive imports since 1834 of $6,632,392,122.

It cannot be said that these have been paid for in gold and silver, for the above figures include gold and silver.

Neither can it be shown, as has been attempted, that we have invested abroad and that this sum is due us. We are largely a debtor country still, though we have abundantly returned our borrowings. We have not been a borrowing country since 1873.

Some of the large excess of exports we have noted above has been spent abroad by American tourists, some has been sent abroad as gifts, some is compensation to foreign transporters for freight. But after every proper allowance has been made, an enormous export balance remains, and we are adding to it constantly by shipments of gold, silver and merchandise, exceeding in value in the world's markets the gold, silver and merchandise we receive in return.

To our mind this means that the people of the United States are sending out of the country more wealth than they are getting in, and implies that foreigners are somehow levying tribute upon us.

But to the "favorable balance" theorists it means profitable exchange and that the longer it continues the richer we shall consequently be. It is by this absurdly inverted image of economic adjustments that protectionists estimate our national prosperity.

Speaking of the relation of idleness to adiposity, it is only fair to say that people who do nothing but take up room have a tendency to overdo it.—Puck.