break my two years' contract with the people of Cleveland.

Upon dictating this reply, Mayor Johnson remarked:

I hope the citizens of Cleveland will soon realize that I am to devote my entire time to their interests during the period of my office.

The citizens of Cleveland are beginning to realize that; but with many, the more distinctly they realize it the more this new kind of politician mystifies them.

A disturbing question has been asked of one of Chicago's leading bankers. In a school address this banker had intimated that business success is not difficult of achievement, saying in that connection that he would "consider any business man who, at 35, has an annual income of $5,000, as fairly successful." It was this remark that drew out the disturbing question. "I should like to ask," said the questioner, referring to the banker, "how many successful business men he is personally acquainted with who have achieved this success without the aid of inherited capital, by their own efforts, in legitimate business, not by speculation. Perhaps the list would not be so long but that he could show, in a general way, how they could build up such a business." Though the question was asked in a leading newspaper, and must have been seen by the banker, we are not aware of the publication of any reply.

HAZEN S. PINGREE.

The outburst of affectionate feeling for Hazen S. Pingree which followed the announcement of his death, is an indication of the confidence he had really inspired by his public life. None of the glamor of high office surrounded him when he died. Though he had been four times mayor of Detroit and twice governor of Michigan, he was then a plain citizen, with no associations to excite public feeling except his record. But that was enough. And we firmly believe that as time brings it out into clearer view, he will loom up larger and larger in the estimation of the people whom he devotedly served, more devotedly than they realized while he lived, in the two public offices he held.

Gov. Pingree was one of the really great men of the republican party. He was one of the men to whom the word "republican" meant what it meant to Lincoln and to Chase. It was identified in his mind with Thomas Jefferson, the founder of the democratic party, which at first was christened and for many years bore the name "republican." But he did not rise to prominence in his party while Jeffersonianism inspired its counsels. His period of political work came at a time when the party was drifting into the ruts and sloughs into which Jefferson's had drifted when the great republican leaders of the fifties seized the drooping Jeffersonian banner and raising it aloft proclaimed a revival of democracy. Yet he was equal to the occasion so far as one leader could be. Even at the cost of denunciation by his associates for disloyalty, he held up the original standards of the republican party against the money oligarchy of his time as its founders had held them up against the slave oligarchy of theirs.

Gov. Pingree was as severely criticized by many who belonged with him as he was denounced by others whom he counted as treacherous to the principles of his party and to the people. Indeed, he was not perfect. But that he was a man of robust honesty, with the full courage of his convictions, and an understanding of public problems that went ahead rather than fell behind the understanding of the people themselves, will hardly be disputed now that the jealousies and hatreds and suspicions that assailed him in his public career are allayed with the ending of his life.

If the republican party of the future does not honor the memory of Hazen S. Pingree as one of the jewels in its crown of leadership, it will be because its managers look ahead to yet deeper depths of plutocracy to plunge it into. But whatever party managers may do, the people regardless of party, as they come better and better to understand the crisis they are passing through, will more and more appreciate the value of Mr. Pingree's work and the sincerity of his intentions.

AN OFFICIAL EXPLANATION OF THE FAVORABLE BALANCE OF TRADE FALLACY.

Such frequent and extended exposures of the balance of trade fallacy as we have made would be unpardonable, were it not that this fallacy is the last stronghold of protection. When its absurdity shall have been generally recognized protection will collapse.

In considering one phase of the question last month (page 51), we described the balance of trade theory as so exceedingly fragile that it cannot endure discussion, and predicted that its end was near, since discussion had begun. Our reference then was to an attempt to explain it in the London Daily Mail. The matter has since advanced a point. No less authority than the head of the bureau of statistics of the American treasury department has come forward with an explanation.

Hitherto protectionists have contented themselves with the specie payment explanation. Asked how it is possible for a country to grow in wealth by sending more goods away than it gets back, they have replied that the balance comes back in specie. "It all comes back in pure gold," said President McKinley, as recently as October 16, 1899, at Mount Horeb, Wis. That was clearly a mistake, as the treasury statistics have for years abundantly shown. Whether our country gets paid or not for its excessive exports, it certainly has never been paid for them in gold. This is distinctly admitted in the treasury explanation mentioned above, to which we now invite attention.

I.

The document was called out by an inquiry from Mr. Dadabahai Naoroji, an exceedingly intelligent and inquisitive Hindu, who lives in London.

Mr. Naoroji had observed the phenomenon of excessive exports in his own country. Anyone else may do the same, by referring to the Statesman's Year Book for 1900 (Macmillan & Co.), at page 152. The exports from India from 1895 to 1899, both years inclusive, exceeded the imports for the same period by nearly 150,000,000 Rx—about $750,000,000. But this great excess of outgo from India was easily accounted for by Mr.

Naoroji, who attributed it to the fact that England drains India of her produce by systems of tribute.

Though that explanation of the excess of Hindu exports was as easy as play to Mr. Naoroji, nothing seemed to explain to him the excess of American exports. So he put his problem to the American treasury department.

Quoting treasury figures showing our large excess of exports, not of merchandise alone, but, as with India, of merchandise, silver and gold, all together, he wrote:

In India a heavy net excess always takes place because the system of government of India compels a heavy tribute, i. e., compels a large drain of the produce of India to England without any material return of merchandise or specie. But America is not under such a drainage system of an alien foreign government; and I, therefore, desire to know the causes, and their extents, of such heavy net excess of exports of America's wealth or produce, and how this large "balance of trade" is expected to be settled.

To this inquiry of the puzzled Hindu the head of our treasury bureau of statistics replied at length, and a long extract from his reply was telegraphed to the American newspapers about the middle of May. As that extract appears to cover the ground, it may be fairly assumed to comprise all of the letter that is material to the subject. We therefore give the extract in full as the first authoritative and only important defense of the perpetual export theory of American commerce:

During the period immediately following our civil war great internal development of our railways and manufacturing occurred. Much foreign capital was brought into the United States for use in this development, and during that time, and in subsequent years, railroad and other securities were largely marketed abroad. The commercial result of this development of railways and manufacturing establishments, including the opening of new fields of production, was an enormous increase in the exportations, and a disposition relatively to decrease the importations because the development of manufacturing was making it practicable to produce at home from our own materials much which was formerly brought in from abroad. Thus the great business development of the years 1870 to 1890 had a tendency to stimulate production and exportation, but discouraged importation, and, as a consequence, exports exceeded imports in a constantly increasing ratio. The fact, however, that large sums had been borrowed from abroad for the internal developments above alluded to required payments of large sums for the annual interest charges, and thus absorbed a part of the proceeds of the surplus exports. The earnings of foreign capital invested in great enterprises in this country, other than that obtained by the sale of bonds or by direct loans, also require considerable sums for the payment of the dividends and profits of the enterprises in which it was invested. The further fact that internal commerce and investments in internal developments were extremely profitable, reduced and temporarily suspended shipbuilding in the United States, and, as a consequence, the increasing traffic came to be carried more and more in foreign ships, and the payment of the freights thereon, especially the freights upon imports, again absorbed a large additional amount of the proceeds of the excess of exports.

Another factor to be considered is that of the money expended by Americans traveling abroad who usually take their funds in the form of letters of credit, and draw from time to time for such sums as they require, and this, of course, proves an offset to that extent against the balance which would otherwise be returned to the United States in the form of cash.

Until recently these four great factors—(1) the payment of interest on American securities held abroad; (2) the payment of earnings of foreign capital invested in business enterprises in the United States; (3) the payment of foreign freights carried in foreign vessels, especially freights on goods imported into the United States, and (4) the expenditures of Americans traveling abroad, have been considered the chief cause of the fact that the exports of merchandise so much exceeded the combined imports of merchandise, specie and bullion. Within the last two or three years, however, three further factors have apparently been added—(1) the cancellation of American indebtedness abroad, including a return to the United States of the railroad and other securities thus held; (2) the sale of foreign securities in the United States, such as the German, British and Russian securities which were placed upon the markets here during the last year, and in most cases quickly taken to the amount of probably $100,000,000 in the year; and (3) the credits which now stand abroad in favor of our exporters, and which are permitted to so stand because better interest rates could thus be realized than by insisting upon their immediate payment.

The sums of money represented by these various factors, which presumably about equal the excess of exports over imports, have been variously estimated, and up to the present time no means of obtaining more than estimates have been devised. These estimates usually put the amount paid to foreign vessels as freight on imports at about $50,000,000; interest on, and earnings of foreign capital, $75,000,000 to $100,000,000; money expended abroad by Americans, $75,000,000 to $100,000,000; American funds invested in foreign securities in 1900, about $100,000,000; and credits permitted to stand abroad in 1899 and 1900, each about $75,000,000 to $100,000,000; to which must be added the amount of our foreign indebtedness actually canceled by the return of securities for which no definite estimate has, so far as I am aware, been made.

The United States is rapidly increasing her production, especially of the minerals and of manufactures for exportation, while the rapid development of our manufacturing industries steadily reduces the relative importations of manufactured goods, though the raw materials required for our manufacturers, especially those of a tropical and sub-tropical nature which we cannot produce at home, are constantly increasing, as are also the tropical foodstuffs of which we do not produce a sufficient quantity to meet our own requirements. The fact that we are rapidly becoming a creditor instead of a debtor nation will reduce to a minimum and wipe out the annual balance for payment of interest on our securities held abroad, and finally for the liquidation of those securities, and to this extent the absorption of our favorable balance of trade will be rapidly reduced; while the present disposition to encourage the reestablishment of our shipping industry in a sufficient volume to carry our growing commerce seems to justify the expectation that this drain upon our surplus may be at least somewhat reduced in the near future. Our foreign credits, as above alluded to, have increased largely during the last few years, and foreign obligations have been taken by investors in the United States in large sums; but it seems at least probable that two of the factors which absorbed a considerable share of the favorable balance, viz., the payment of interest and indebtedness abroad and payment of freights to foreign vessels, will within a comparatively short time be materially reduced, and thus require a settlement with specie and bullion of a larger proportion of the trade balance than has been the case in former years.

The foregoing official explanation will be more readily grasped if summarized.

It falls into nine general divisions.

(1) Foreign capital was imported for the benefit of our railways and

manufacturing, immediately after the civil war, and American securities went abroad to certify our consequent indebtedness. The resulting development for the years 1870 to 1890 made it practicable to produce at home from home materials much that was formerly imported, and this caused exports to exceed imports in a constantly increasing ratio.

(2) The importations of foreign capital, mentioned above, required the payment to foreigners of annual interest charges on so much of that capital as was obtained in exchange for bonds or other direct loans. These charges have absorbed a part of the excessive exports.

(3) Similarly, dividends and profits earned by so much of the foreign capital as was not loaned but was invested in American enterprises, have absorbed a further share of the excessive exports.

(4) Since most of our ocean freightage is earned by foreign ships, another share of our excessive exports is retained by foreign ship owners.

(5) Still another is chargeable to foreign expenditures by American tourists. The amount of these drafts is to that extent an offset to our excessive exports.

Until recently those four factors—(a) payment of foreign interest on American securities; (b) payment of earnings on foreign capital invested here; (c) payment of foreign freights; and (d) tourists' expenses—have been the chief offset to our excessive exports. But within two or three years three other factors, specified below as 6, 7 and 8, have been added.

(6) American investors have been buying American securities held abroad, and charging off their value to our excessive exports.

(7) American investors have been buying German, British and Russian securities, and charging off their value to the same account.

(8) American credits abroad are caused by excessive exports allowed to stand in open account because foreign interest rates are more profitable than American interest rates.

(9) The final division of the treasury document here summarized is nothing but a speculation as to the future. Since "we are rapidly becoming a creditor nation," and as there are reasons to expect shipping subsidies, "a settlement with specie and bullion of a larger proportion of the trade balance than has been the case in former years," is probable.

The figures set forth in this official explanation, as offsets to the American export balance, we tabulate for more convenient reference, adopting for each item the maximum amount as estimated by Mr. Austin in his foregoing letter:

Interest and dividends on foreign capital, annually	$100,000,000
Foreign freights on imports annually	50,000,000
Tourists' expenses, annually	100,000,000
Purchase of foreign securities in 1900	100,000,000
Open credits drawing interest abroad in 1899	100,000,000
Open credits drawing interest abroad in 1900	100,000,000
Purchase of American securities from abroad and cancellation of other American debts to foreigners	Not estimated

The questions raised by this treasury letter to Mr. Naoroji were fully and minutely considered in these columns (vol. iii., p. 291), last summer. We shall not repeat that presentation of the subject now; but will confine our observations to a direct reply to the treasury letter.

II.

The treasury letter begins with an attempt to lay a foundation, in the development period following the civil war, for its subsequent explanations. "Much foreign capital," it says, "was brought into the United States for use in this development, and during that time and in subsequent years railroad and other securities were largely marketed abroad."

That American securities were largely marketed abroad may be at once conceded. But what were they marketed for? Certainly not for any very great amount of capital, as we shall see.

The civil war closed in 1865. From that time until 1869, both years inclusive, (the first part of the period of importation of foreign capital referred to in the treasury letter), the excess of imports, including gold and silver, was only $177,894,731.

This was all in merchandise, both silver and gold having been exported in that period in excess of the imports of each.

Our figures are taken from page 2,051 of the Monthly Summary for February, 1901, as follows:

Excessive imports of merchandise, 1865-69	$466,795,999
Excessive exports of gold	222,415,445
Excessive exports of silver	66,485,823
Net imports	$177,894,731

That table includes all possible foreign capital—merchandise, gold and silver. There is nothing else to which the treasury letter could allude as "foreign capital" "brought into the United States." And $177,894,731 (the net imports) is not much capital for a developing nation like ours to have borrowed and taken upon investment; certainly not much to serve as the principal factor in a treasury explanation of the absorption of the enormously excessive exports of recent years.

It will be noted, however, that the treasury letter vaguely alludes to the two decades immediately following 1869 as also a period in which this country received foreign capital. What, then, do the treasury figures (same treasury summary, and same page), disclose as to the importation of foreign capital during those two decades?

Lumped together, the figures for the whole period, 1870-1890—show that instead of our having received foreign capital from 1870 to 1890, those two decades gave us an enormous excess of exports. In merchandise, gold and silver this excess of exports amounted to $1,793,785,504, as exhibited in this table:

Excessive exports of merchandise, 1870-90	$1,427,095,184
Excessive exports of gold	79,544,897
Excessive exports of silver	287,145,423
Net exports	$1,793,785,504

There is no dispute, of course, that we did receive foreign capital during those decades. In the former of the two, our imports exceeded our exports, which indicates that foreign capital was flowing in. But in the next, all that capital was repaid and a balance of $1,793,785,504 rolled up the other way.

This point the treasury letter anticipates and seeks to minimize. It accounts indefinitely for the excessive exports of these two decades by referring to them as a period in which we were able to produce more abundantly at home what we had been accustomed to importing. In consequence, so the explanation runs, "exports exceeded imports in a constantly increasing ratio." But the explanation fails to explain.

If the excess of our exports was indeed due to our producing more to sell and buying less to consume, then we lost the value of those excessive exports. Unless they were paid for, we must have lost it; and there is no indication in the statistics of any payment. That these excessive exports were not paid for with merchandise exports is not only conceded, it is asserted by the treasury letter. That they were not paid for with gold and silver is apparent from the treasury statistics, which show that during these two decades we exported $366,690,320 more gold and silver than we imported. That they are not to be accounted for by debts in our favor is evident; for the treasury letter refers to American credits abroad as a factor of very recent date—as not more than two or three years old.

These excessive exports of the decades from 1870 to 1890, then, are to be accounted for (excluding interest, dividends, etc., from the calculation for the present) in only one of two ways. The export balance was either applied to the repayment of previous excessive importations, or else it was a dead loss. At any rate, the treasury letter leaves no other alternative.

III.

Turning now to more definite explanations of the perpetual excess of American exports, the treasury letter enumerates four things, namely, interest on the foreign indebtedness incurred in our development period, dividends on investments made then, freight paid to foreign ship owners, and the expenses of American tourists abroad. We will consider these explanations in inverse order.

Expenditures of tourists are a legitimate explanation. As this item takes wealth out of the country, for which no wealth is returned, it is unquestionably a drain upon the wealth of the country. But such a drain may be beneficial, just as a drain upon a boy's pocket for circus money may be. At any rate, it legitimately accounts for part of our excessive exports.

But for how much? Would the head of the treasury division of statistics indorse the estimate that it has averaged $100,000,000 a year since 1865? We think not. For a few years recently it may have reached that sum, and for a year or two it has probably exceeded it, but not much has gone away in all, for Americans traveled abroad but little until long after the civil war. If the total amount were put at $1,000,000,000 it would doubtless be excessive. And any sum would be subject to reduction by the amount of a considerable allowance for the expenditures of foreign tourists in the United States. Let this item stand, however, at the enormous sum of $1,000,000,000.

Payment of freight to foreign ship owners is another legitimate item. Nor is this in any true sense a drain of wealth. If we buy $100 worth of goods abroad, and the foreign ship charges us one dollar for freight, we do indeed pay $101; but then the value of the goods when they reach us is $101. The foreign ship owners have enriched our country one dollar's worth, as truly as the foreign exporters have enriched it a hundred dollars' worth. Inasmuch, however, as the value which the ship owners have given us does not appear in the statistics of imports, and the value of the goods with which we pay the freight is supposed to do so, this item of freights is, as far as it goes, a legitimate explanation of our excessive export balance.

How far, then, does it go? According to the treasury letter, it amounts to $50,000,000 annually. But that average, from 1865 down, would be altogether too much. If it also were lumped at $1,000,000,000, the allowance would be ample, and there would still be a large sum to deduct for freight on exports to other countries carried by American ships or by ships owned in part by Americans.

The third item of the treasury letter is dividends on foreign investments here, and the fourth is interest on foreign loans. Payments on these two items are estimated in the letter at $100,000,000 annually. But as they include what in our judgment constitutes a distinct and increasing drain upon American resources, we postpone their consideration somewhat further.

Meanwhile, let us take up the three new factors which the treasury letter enumerates—cancellation of American indebtedness abroad, sale of foreign securities in the United States, and American credits now standing abroad in open account for higher interest than can be obtained at home.

As to the first, no estimate of the amount is offered by the treasury letter. It may, therefore, as well as for other reasons, be better considered further on, in connection with the interest and dividends of which it is the basis.

The second item, recent sales of foreign securities in the United States, is put by the treasury letter at $100,000,000, that being for the year 1900, when most if not all of these sales were made.

The third item of this group, credits abroad on open account, is estimated at a maximum of $100,000,000 each for 1899 and 1900, or $200,000,000 in all.

Tabulating these specific items of both groups, we have the following result (still excluding American indebtedness abroad and foreign investments in America, together with the interest and dividends upon them), as the probable maximum of offsets to the American export balance, from June 30, 1865, to June 30, 1900, both years inclusive:

Tourists' expenses	$1,000,000,000
Freight charges	1,000,000,000
Sales of foreign securities in U. S.	100,000,000
Open credits abroad	200,000,000
	$2,300,000,000

If the reader will now take the trouble to examine the treasury tables of imports and exports from June 30, 1865, to June 30, 1900, the fiscal years with which the treasury letter to Mr. Noaroji has to do, he will discover that $2,237,224,626 is yet to be accounted for. We tabulate:

Excessive exports, 1865-1900:	
Gold	$374,212,885
Silver	587,299,039
Merchandise	3,575,712,702
Net exports	$4,537,224,626
Accounted for by last previous table	$2,300,000,000
Exports unaccounted for	$2,237,224,626

IV.

The explanation of that stupendous unaccounted for balance of exports, if it is explained at all by the treasury letter under review, must be found in the item of foreign loans to and foreign investments in this country made during the development period succeeding the civil war, together with the interest and dividends subsequently paid upon those loans and investments, items which we may now consider.

In 1873 the United States ceased to be an importing, and became an exporting country. Its exports thenceforth—merchandise, gold and silver—have, with only two trifling exceptions—1887-88—exceeded its imports every year. Any foreign capital, therefore, which we have imported since 1873—excepting only 1887 and 1888— has been fully paid for in the same year with current exports, and a handsome balance has been left over to the credit of tourists, foreign freights, interest, dividends and repayment of foreign capital. So far, then, as estimates from the treasury statistics can disclose the fact, the net amount of foreign capital invested in this country for development succeeding the civil war is limited by the net imports from 1865 to 1873, both inclusive.

By reference to any Monthly Summary of the treasury department (we are using the one for February, 1901, at page 2,051) those imports will be found to be $362,388,723. Upon the basis of this not very munificent sum rests so much of the treasury letter's explanation of our export balance as relates to foreign loans and investments made during our development period. It can have no other basis.

Now let us follow the record of excessive exports, year by year, from 1873 down, and see whether the unaccounted for part of our export balances is really explained by reference to foreign loans and investments made during our development period. For convenience, we tabulate (merchandise, gold and silver, all being included in the table):

Excessive exports—	
1874	$57,062,257
1875	51,668,700
1876	120,213,102
1877	166,539,907
	$395,473,966

It appears, therefore, that the capital of our entire foreign indebtedness could have been more than paid off with excessive exports by 1877. Observe:

Excessive exports, 1874-77	$395,473,966
Excessive imports, 1865-73	362,388,723
Surplus	$33,085,243

And if we offset our foreign indebtedness with the excessive exports down to 1878, one year later, we shall not only have paid the indebtedness off, but have paid a profit on it in addition—interest, dividends, or whatever you choose to call it—of $294,818,278, or over 80 per cent. The next table shows this:

Excessive exports:	
1874-77	$395,473,966
1878	261,733,035
	$657,207,001
Excsive imports:	
1865-73	$362,388,722
Interest, dividends, etc	$294,818,278

It may be objected, however, that no allowance is made here for tourists' expenses and foreign freight charges between 1865 and 1879. Very true. We will make the allowance now.

What those items amounted to it is impossible to estimate with certainty. In these days of American globe trotting they are put at $100,000,000 annually for tourists, and $50,000 annually for freights. They must have been very much less in those earlier days. Suppose we put the two items together at $100,000,000 annually from 1874 down. This yields the following results:

1874—excess of exports	$57,052,257
1875—excess of exports	51,668,700
1876—excess of exports	120,213,102
1877—excess of exports	166,539,907
1878—excess of exports	261,733,035
1879—excess of exports	269,363,107
1880—excess of exports	91,792,521
1881—excess of exports	162,246,591
1882—excess of exports	32,847,772
1883—excess of exports	103,989,530
1884—excess of exports	102,623,037
1885—excess of exports	163,651,628
1886—excess of exports	277,958,448
	$1,861,579,635
Tourists' expenses and foreign freights at $100,000,000	1,300,000,000
	$561,579,635
Excessive imports:	
1865-69	$362,388,723
Interest, dividends, etc	$199,190,912

We here find that the American excess of exports (merchandise, gold and silver) from 1874 to 1886, both inclusive, was enough to allow liberally for tourists and foreign freights, and to pay all foreign investments since 1865, with profits, dividends, interest, etc., thereon, amounting to $199,190,912, or 54 per cent.

While it is true that 54 per cent. would not be a large percentage of profit, since it is an average of only 2½ per cent. annually for the whole period from 1865 to 1886, yet, when other considerations are brought in, it mounts up. The allowance for tourists' expenses and freight is doubtless excessive for that early period. No account is taken at all of the expenses of tourists in America nor of ocean freight received in this country, both of which are an offset in some degree to American tourists' expenses and foreign freight rates. Neither is any account taken, in computing profits, of the repayment of capital from 1874 to 1886, year by year, profits being computed on the whole amount for the entire period. Considering these things, it is fair to say that from 1874 to 1886 we exported enough wealth—merchandise, gold and silver—in excess of what we imported, to repay all the capital we had imported since 1865, with extravagant profits into the bargain.

From 1886, therefore, our excessive exports should have yielded us that income which the treasury letter under review predicts for a period yet in the distant future—after we shall have cleaned up our borrowings of foreign capital and got a ship subsidy! But instead of yielding us an income, they have been piling up export balances, until now we have an aggregate balance on the export side that is Brobdingnagian in its proportions. Here is a statement of it, taken from the same treasury summary as before:

Excessive exports, 1887-1900:	
Merchandise	$2,684,340,679
Gold	67,483,672
Silver	287,190,364
Total	$3,039,014,715

Even if we allowed tourists' expenses and foreign freight rates at the full estimates for the whole of those 14 years, the treasury statistician would still have a balance of nearly $1,000,000,000 to explain.

He could not explain that upon the assumption that we are paying off foreign debts, for this estimate accounts for them as having been paid. Neither could he explain it with $100,000,000 purchases of foreign bonds, nor with $200,000,000 in open account abroad drawing high interest. It simply cannot be explained upon the theory that our continuous export balance is profitable to the country as a whole.

We are not trying to show, of course, that these debts were in fact paid off with interest by 1886. In fact, they were not paid off then, nor are they paid off yet. What we do show is that they would have been paid off by 1886 if the excessive exports from this country had been applied in any reasonable degree to paying them off. The point we make here is that the excessive American exports are not accounted for by assuming that they have gone to pay off foreign debts and investments. There must be some other explanation. Either that, or there was something in the character of this indebtedness and these investments which creates a continuing and increasing obligation.

V.

The point mentioned above, of which so much has been made, namely, that our export balance is accumulating as a credit abroad — this point is not so impressive as it was when the treasury letter to the Hindu economist went over the wires and appeared with large headlines in the newspapers.

It should, indeed, have been discredited by the long continued high price of sight exchange. When we have a balance abroad subject to draft, the price of exchange runs down, because drafts are plentiful in our market. When drafts are not plentiful, the price of exchange goes up. Now exchange, we repeat, has been almost continuously high, thus indicating that there are no funds in foreign banks awaiting our order. But this suspicious circumstance has been explained on the basis of high interest rates abroad. Lately, however, the excessive use of time drafts has attracted attention. Why should people sell time drafts at a discount when they have balances to draw against? The story was told May 23, by the regular correspondent of the Chicago Tribune, who said, writing from New York:

Important banking interests in this city admitted to-day that the belief which has generally obtained that the United States has at present a great international credit balance—that is, a great mass of debt owed to this country by Europe—is not well founded. As a matter of fact, the United States is in reality, through the operations of the foreign exchange market, borrowing from Europe, although the debt will be settled later in the season, as our grain and cotton crops, which are still to be harvested, are shipped abroad.

One banker said there had for a long time been a deal of misinformation circulated regarding the so-called international trade balance in favor of the United States.

"Since about April 1," said the banker, "some of the largest banking houses here having dealings with Europe have drawn large amounts of 60 and 90 day bills of exchange, and they are still drawing them. These bills are not drawn against balances abroad, but are in the nature of loan bills. Such bills are regularly drawn every summer, but this year they began to be drawn earlier than usual, about April 1, although usually they do not begin to appear until along in May. If any balances existed abroad the bills drawn would be demand bills of exchange, not long bills.

"In figuring the balance in favor of this country on the basis of the net exports of merchandise over the net imports of merchandise, there has been no taking into account of the large amount of money that rich Americans spend there, the money, of course, being drawn from this country. In this category are such men as William Waldorf Astor and Bradley Martin and such women as Countess de Castellane and the duchess of Marlborough. There is a great number of rich Americans living in London, Paris and Italy, and to them can be added a great many more Americans of less wealth who also live abroad and who spend a large sum in the aggregate.

"If actual figures could be obtained it would be found that a net balance at the present moment does not exist as a banker's balance—that is, an actual cash balance."

Supplementary to the foregoing explanation, from the Chicago Tribune, it is to be observed that British interest rates have fallen. American capital can no longer get high interest abroad, yet the excess of exports exhibits no decline.

VI.

But in that quotation from the Chicago Tribune the real explanation of our monumental export balance is indicated. Astor, Martin, Castellane, Marlborough, Scully and a host of other foreigners, who own American land, draw fabulous incomes from this country. These incomes figure as exports, and there are no imports to offset them. Scully alone takes away probably $200,000 a year. Then there are foreigners without number who have invested in American land, either directly or in corporation stock, and are now drawing in rents or dividends every few years an income as much as their original investment. What they draw figures in our exports, but we get no imports in return. It all goes to swell that "favorable balance," about which protectionists boast, and an explanation of which the treasury department has tried to make to Dadabahai Naoroji. And now Mr. Carnegie swells the total of our "favorable balance" by his gifts to Scottish universities. The $10,000,000 in five per cent. bonds of the steel trust, which he has given to these universities, will add to our excessive exports the neat sum of $500,000 annually, and the full $10,000,000 when the bonds are finally paid; for not one dollar of which will any imports come over to curse us with excessive wealth.

If Mr. Naoroji pursues his inquiries, he will find that the true explanation of our export balance is essentially the same as that of the export balance of India. We, like the Hindus, pay tribute to foreign owners.

NEWS

The unfavorable news for the Boers that we reported last week is altered this week by an official report from Lord Kitchener of a British defeat. It has again impressed England with the conviction that the war in which the British were supposed to have triumphed months ago is still in ugly shape. Lord Kitchener's dispatch was received in London on the 16th. It told of a surprise on the 12th, near Welmanrust, 20 miles south of Middleburg, a railroad town east of Pretoria. The enemy crept up to within short range, says Kitchener's dispatch—

and poured a deadly fire into the camp, killing two officers and 16 men, and wounding four officers and 38 men, of whom 28 were slightly wounded. Only two officers and 50 men escaped to Gen. Beaston's camp. The remainder were taken prisoners, their arms taken from them, and released.

The number of British who were thus