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There is at last a vibration of sanity in the commercial atmosphere regarding the question of our "favorable balance of trade." For a time the whole commercial world seemed to have gone mad over the notion that a country gets rich by sending away vast quantities of merchandise for which it gets nothing in return. The enormous excess of our exports over our imports was heralded as proof of our prosperity. The tulip craze of Holland was child's play in comparison with this full-grown lunacy. But common sense is resuming its normal sway.

The London Times now directs attention to what we have noted more than once in this connection, that the fact that the rate of exchange has remained in favor of London tends to show that in spite of our excessive exports the balance of trade has not been really in our favor. For a long time the effect of this impressive evidence was evaded by the commercial lunatics. They explained that foreign exchange has ruled high in New York not because we have no balance abroad to draw against, but because we are lending our balance at the high rates of interest which prevail there. But this evasion is no longer possible.

It is exposed by Mr. Frank A. Vanderlip, recently assistant secretary of the treasury, in the leading article of Scribner for January, an article on "The American 'Commercial Invasion' of Europe." In this article Mr. Vanderlip asserts that—

> international finances do not show that we have any unusual command in the world's money markets; our bankers have no extraordinary credits with their foreign correspondents. There seems to be no vast accumulation of funds upon which we can draw at will, nor is there other evidence that any large part of this balance is still unsettled.

Mr. Vanderlip's principal explanation of our "favorable balance of trade" is that our excessive exports have been applied abroad to the repurchase of our outstanding securities. Here is his explanation in terms:

> Most important of all, there has been going on a repurchase by American investors of our securities which have been held in foreign markets. This, in the aggregate for the last ten years, assumes enormous proportions. The best of statisticians can do nothing more than guess at the amount, but it has been great enough, in the main, to counterbalance the excess of our foreign sales over our purchases after the totals of tourists' expenses, ocean freights, and the home contributions of immigrants have been deducted.

But upon that point Mr. Vanderlip is flatly contradicted by W. H. Allen, who is cited by the Outlook of December 21 as having recently presented in the New York Times—

> a statement of the amount of securities bought and sold for foreign account in the New York market since 1898, bringing out the striking fact that in every quarter except one the recorded purchases for foreign investors exceeded the recorded sales. During the first three-quarters of the present year the purchases exceeded the sales by over 1,200,000 shares. The recorded purchases and sales for foreign account, Mr. Allen believes, are fairly typical of those unrecorded. If so, America's "debt" abroad is greater than ever before.

Presumably, Mr. Allen's detailed statement is more trustworthy than Mr. Vanderlip's guess. But even if that were not so, Mr. Vanderlip's explanation, so far from explaining, would only involve the matter in greater mystery.

For, if our excessive exports during ten years past have been applied to the repurchase of our securities from foreigners, a new question arises. Had our imports been excessive prior to ten years ago, the application of our subsequent excess of exports would be explicable upon the basis of Mr. Vanderlip's assertion. We should in that case simply say, Until ten years ago we were a borrowing nation, and since then we have been paying our debts. In those circumstances the mystery of our trade balances would be no mystery. But in fact we have had an excessive export balance not only during the past ten years, but continuously during the past 25 years. According to the Monthly Summary for October, 1901, at page 1801, our merchandise exports exceeded our merchandise imports every year from 1875 on down, except in 1888, 1889 and 1893, when the aggregate balance the other way was only $50,000,000. And if we bring silver and gold into the account, the merchandise balance is not materially affected. That being so, Mr. Vanderlip's assumption that our excessive exports for the past ten years have been used to liquidate our debts abroad calls for some explanation of how we got into debt abroad prior to ten years ago. Did our excessive exports possess the peculiar quality of getting us into debt abroad during the first two decades of the generation, and of getting us out again during the third?

What Mr. Vanderlip has to say of the fictitious character, in considerable degree, of our statistics of international trade is quite true. He might have made a worse case against them than he has. For, while he says that the actual total of our excessive exports falls considerably below the round sum of $600,000,000 a year shown by government reports, because—

> it is quite impossible to strike any ac-

curate international trade balances when the figures on one side of the ledger must come from importers, who have the strongest motives for undervaluing amounts in their statements—

he might have added that the figures on the other side come largely from exporters who have some strong motive or other for overvaluing exports in their statements. Doubtless a very large volume of our exports is thus overvalued by protected trusts. Being protected at home, they charge exorbitant prices in the home market. But not being protected abroad, they are forced to accept competitive prices in foreign markets. Not wishing, however, to disclose these lower prices to the American public, they invoice their foreign sales at home prices, though the prices they actually get abroad are much lower. Hence the statistical overvaluation of our exports. When this sly overvaluation of exports is added to the swindling undervaluation of imports, the nominal balance of trade must be very considerably larger than the actual balance. Nevertheless, there is, as Mr. Vanderlip says, a large actual balance, which is partly accounted for by tourists' expenses, partly by foreign ocean freights, and partly by remittances to friends abroad. But, as we have already seen, there is no valid reason for believing that Mr. Vanderlip is right in accounting for the remainder on the theory that it has been applied to the repurchase of our securities from foreign owners. Most of the remainder consists in the payment of interest, dividends and rents. Some of these payments are "quid pro quo," but some are not; and to the extent that they are not, our "favorable balance of trade" means the same thing to this country that the "favorable balances" of Egypt, India and other tributary countries mean to them.

Such of our export payments as are not "quid pro quo," but are essentially tribute, cannot be statistically distinguished from the others, because they are confused under common evidences of title. Stocks and bonds, for instance, represent both tribute payments and exchange payments without distinction; because they are evidences of ownership not only of our natural resources, such as mines, and of our public ways, such as railroad routes across our country and traction franchises through our streets, but also of mining machinery, railroad construction and equipment, and so on. The same is true of real estate deeds. They certify titles not only to particular parts of our country, but also to improvements. But while this distinction cannot be made statistically, it is easy to apprehend it in principle. For that purpose an illustration will suffice.

Let us take the simplest illustration involving the principle. Thirty-odd years ago a European gentleman bought a quarter section of prairie land in an American state for $3 an acre. In consequence of that transaction $480 was imported into the United States—whether in gold, silver or merchandise makes no difference, for a dollar's worth of anything in a given market equals a dollar's worth of anything else in the same market. Our volume of imports was therefore swelled by that amount. The foreign purchaser of this land allowed it to remain unoccupied and of course unused for ten years, during which time he paid taxes amounting to $100. So, at the end of ten years, American imports on account of this transaction had amounted, all told, to $580. Meanwhile, the land had so risen in value, in consequence of neighboring improvements, that at the beginning of the second decade the foreign owner was able to rent it to a tenant at a ground rental of $250 a year over and above taxes and all other charges. Thereupon, the import balance of $580 due to the original payment and subsequent taxes, was by degrees offset by the exportation of $250 annually; and at the end of the fourth year the foreign buyer had been reimbursed his original payments, with upwards of 8 per cent. interest. At this point, clearly, the United States and Europe were quits on exports and imports in their relation to that transaction. All that the former received from the latter originally, for land purchase and taxes, she had returned, and with heavy interest to boot. Yet the foreign owner of that quarter section has ever since received not less than $250 annually as ground rent for that quarter section. He still receives it. And he will continue to receive as much or more unless he sells out or the community where the quarter section is retrogrades. And so long as he does receive it this country will export on that transaction alone, $250 annually, for which it never has received, does not now receive, and never will receive any offset in imports, either of gold, silver or merchandise. Beyond all possibility of controversy these exports, instead of enriching the country as a whole, make it poorer by $250 a year.

Now the principle of that case applies to all land in the United States which is under foreign ownership and has increased in value so as to have returned the foreigners their original investment with interest. And the aggregate of such land is enormous. It includes not only land held by deed, as in the case described—and there is a vast amount of that—but also all that is held by stock titles, such as the rights of way of railroads and street car lines, mining rights, water rights, etc. Here is the true explanation, in growing degree, of our excessive exports. After allowing for false statistics, ocean freights, remittances to friends abroad, tourists' expenses, interest and dividends on capital—real capital in contradistinction to mere legal privileges—the remainder consists almost exclusively of payments like those of the illustration. It consists, that is, of exports for which this country never has received, does not now receive, and never will receive any equivalent—either in gold, silver or merchandise—in imports. It is tribute which we of this country pay to part owners of this