Trade Balances

EACH year since Herbert Hoover assumed the Secretaryship of the Department of Commerce, that department has issued annually a statement of the balance of international payments for the previous year. This statement is far more than the balance of trade, which it includes, for it takes in all the international financial transactions of which information is available. If President Hoover, indefatigable worker that he is, had acquainted himself with the real substance of these statements, he never would have signed the Smoot-Hawley tariff bill which has just become law. If his successor in the Commerce Department, Secretary Lamont, really comprehended the statement, apart from its complex details, he never would have justified this much execrated tariff. If our Representatives and Senators in Congress had grasped its principles they never would have passed the bill.

For the statement shows with mathematical accuracy that for every credit there is a debit, and, all things considered, there *is* a balance, after a fashion, between what goes out of a country and what comes into it. If we reduce the debit item of imports, there must be somewhere a corresponding reduction in the credit item of exports, unless, indeed, some method of otherwise expanding the total of debits is found. This expansion of the debit total is afforded in the vast outpouring of foreign loans and investments which followed the war.

In his introduction to the latest statement of international payments issued by the Department of Commerce*, William T. Cooper, director of the Bureau of Foreign and Domestic Commerce, writes this significant paragraph:

"Last year we sold to customers abroad more than $5,000,000,000 worth of commodities. The aggregate profit thereon and the productive employment created by these sales are among the very bases of our national welfare. In accordance with sound business practice, we should spare no pains in analyzing the means whereby our customers abroad acquired the exchange with which they paid us for their purchases."

The statement of the international balance of payments, therefore is an analysis of how the rest of the world has acquired the wherewithal to pay our farmers and manufacturers for goods purchased here. They could not pay with their own money, for that is not legal tender here, does not circulate here, and is quite useless here. They had to acquire good American dollars with which to pay, and they *did* acquire them.

In the calendar year 1929 we exported goods to the value of $5,241,258,000 and imported $4,400,124,000 worth, leaving a "favorable balance" of $841,134,000 of which more anon. Last year was not unique, for it was merely the latest of a long series of years in which we have exported tremendous excesses over the value of our imports, an excess amounting to something over twenty-six billions of dollars in the past fifteen years. Yet all has been paid for, or payment arranged for, as in the case of the international "war debts." It may be as well to look over the trade balances of the past decade, beginning in 1920. Here are the figures for the fiscal years since then; which are not calendar years, but end on June 30 each year:

	Imports	Exports	Export Excess
1920-21	$2,556,869,717	$6,516,510,033	$3,959,640,322
1921-22	3,073,853,263	3,771,156,489	697,303,226
1922-23	3,780,958,965	3,956,733,373	175,774,408
1923-24	3,554,036,954	4,223,973,222	669,936,268
1924-25	3,824,128,375	4,778,330,897	954,190,758
1925-26	4,466,613,831	4,653,509,472	186,895,641
1926-27	4,256,825,000	4,970,541,000	713,716,000
1927-28	4,147,499,473	4,877,070,585	729,571,112
1928-29	4,291,857,565	5,373,612,778	1,081,755,163
Total excess of exports in the nine years - -			$9,168,782,898

These figures present a very incomplete and therefore deceptive picture of our economic relations with the world. They do indeed form the most important part in the entire balance, but there are many other items in the whole account which never find their way into the trade balance. In the setting of the balance of payments in the calendar year 1929 the Department found credits totaling $10,045,000,000 and debits totaling $10,054,000,000. The discrepancy of $9,000,000 is frankly attributed to errors and omissions in the accounting, for it is extremely difficult to corrall and tabulate all the items entering into so stupendous a total of transactions. Payments do balance, however, as said before, just as do the assets and liabilities of a properly conducted bank, for every credit involves a debit.

Those desiring a detailed statement of how this balance was reached in the past two years will send for the pamphlet. Suffice it to say here that among the large credit items shown last year besides the excess of $841,000,000 on merchandise account were $876,000,000 received as interest and dividends on American investments abroad, $207,000,000 received on war debt account, and $1,537,000,000 for American securities sold to foreigners. Oh, yes, foreigners are still avid for American securities—when a bull market is in full swing.

Among the larger debit items are $659,000,000 spent abroad by American tourists, this being merely the excess over similar expenditures by foreign tourists in this country, the total American spendings being much larger; $270,000,000 interest and dividends paid to foreign owners of American investments; $223,000,000 sent to relatives abroad by immigrants in this country; $696,000,000 for foreign securities sold here, and $1,080,000,000 paid for American securities bought back from their European owners. Last year was not a very good year for sales of foreign securities here, for in 1928 that item was $1,484,000,000, or $788,000,000 larger than in 1929. The amount

*"The Balance of International Payments for 1929" for sale by the Superintendent of Documents, Washington, D. C., Price 10 Cents.

of American securities repurchased from foreigners in 1928 was almost the same—$1,015,000,000.

There are many items that cut both ways—earnings of foreign corporations here and American concerns abroad; moving picture royalties, patent royalties, freight charges on the seas and on railroads crossing the international boundaries, insurance transactions, gold movements (we exported, actually or constructively, $120,000,000 of gold net last year), and a host of miscellaneous items. One debit item of $214,000,000 listed in the tabulation as "merchandise readjustments" is explained in the text as the estimated payment for liquors smuggled into this country, which is not mentioned in the trade balance.

In the tabulations themselves and even between the lines of the text of this remarkable pamphlet runs the truth so graphically stated by Dr. Neil Van Aken at the recent foreign trade convention of the National Foreign Trade Council in Los Angeles a few weeks ago, when he declared "trade is two-way traffic." Dr. Van Aken is secretary of the Netherlands Chamber of Commerce in New York, and he spoke as representing the Association of Secretaries of Foreign Chamber of Commerce in the United States. We quote from his remarks:

"Official and non-official foreign-trade bureaus and associations, if we may judge from the announcements of their objects and activities, as well as from our own experience, look upon foreign trade as it affects exports only. In other words, international commerce is to them predominantly, almost exclusively, a one-way traffic.

"This condition is not peculiar to the United States alone. All nations do their utmost to sell; none are over-anxious to buy. All pat the exporter on the back, none have a word of encouragement for the importer. He is the black sheep of the human herd. What the commercial nations of the world need to day more than anything else is to learn the old lesson all over again: Trade, whether local, national or international, is nothing more or less than a process of barter, an exchange of goods in other words, that it is a two way traffic. If so simple a definition as this were constantly kept dangling before the eyes of all who are interested, theoretically or practically, officially or privately, in the development of foreign trade, we might make a bonfire of the thousands of books and pamphlets written on the economic aspects of international commerce and there would be absolutely no excuse for a speaker on the subject taking up your valuable time at this or any other foreign trade convention.

"In addition to our tangled thinking, we Americans have been lulled into a sense of false security by the fact that, in spite of warnings of economists the last few years, we have, as a recent writer expressed it, continued to mix the oil of a creditor status with the water of an export surplus and found that the mixture was good. Why then cannot this condition continue? Why worry? The answer is that we have found it very convenient to forget that during the last ten years our annual export of fresh capital has largely enabled our foreign debtors to cancel the promissory notes which they were unable to redeem with the sale of goods to us. But the time is slowly but surely approaching when our export of new capital will be far below the level of foreign interest obligations. When that time comes—and it is distinctly visible in the offing—there must inexorably come a settlement by means of increased shipments of goods to the United States or by a decrease in our shipments of goods to foreign countries.

"When that time arrives let us be prepared, if I may continue the simile of a two-way traffic street, to draw our commercial export trucks sufficiently to the right so as to avoid a disastrous collision with the traffic coming from the opposite direction. If by such collision we block the roadway, we shall certainly delay, if not entirely prevent, our own exit to the markets of the world."

Dr. Van Aken's criticism of the ponderous libraries that have been written on "the economic aspects of international commerce" as mostly rubbish, is richly justified Under a regime of economic liberty, and the justice that would be the necessary consequence, nations would be no more concerned about their trade balances than are our states in their trade with one another, none of which has ever attempted to compile such statistics. Moreover, under such a regime there could arise no such problem of "deficient public purchasing power" as is now perplexing our reputed economists, for, if free, production *is* buying power, the two terms being really the obverse and reverse sides of the same coin, so to speak.

The endurance of the curious superstition that a "favorable balance of trade" enriches a nation, and that nations can so enrich themselves by blocking the trade of their neighbors, is one of the marvels of economic history. The habit of calling an export surplus a "favorable" balance perhaps grew out of the custom of entering exports on the credit side of the balance sheet because they create credits abroad which can be drawn on, and imports on the debit side for the opposite reason. Perhaps it arose from thinking of a nation as a merchant, whose sales must exceed his purchases in total value if he is to continue in business. But nations do not buy and sell for money. For reasons already explained, money does not pass in international trade, being then a mere measure of value and not a medium of exchange. The importer who in New York buys a draft payable in sterling at a bank in London and sends it to an English concern in payment for goods purchased may not know it—the general public certainly does not know it,—but we have created here a credit in American dollars subject to the order of the English bank on whom the draft was drawn, which can be acquired and used for the purchase of American goods by some English house, or for the purchase of American securities, or, if bought by the British government, for payment on the British war debt to our government. If used for the latter purpose, it of course buys here nothing but a canceled voucher or bond.

Excluding foreigners from our market, therefore, excludes them from one of the methods of securing credits for the purchase of American goods. The nations which do this are but playing a gigantic game of "beggar my neighbor" which beggars them all.

Another superstition that dies hard is the notion that Great Britain is the great exemplar (or horrible example, as you prefer) of Free Trade. The United States government last year collected $604,000,000 in customs duties. Great Britain, though containing little more than one-third of our number of people, collected over £119,000,000, or about $590,000,000, in customs duties. Free Trade England! Small wonder that Henry George said nearly half a century ago that English free trade and German silver were alike—the one contained no free trade, the other no silver.

This fact is particularly interesting in view of one of the reasons given by Premier Ramsay MacDonald (a thoroughgoing "free trader" of the English school) for his government's opposition to the construction of a tunnel under the English channel. Said the government's White Paper on the subject:

"While the committee saw better business as a result of the tunnel, the government found a great deal of doubt as to that result, and many manufacturers fear it will increase imports and thus harm domestic business."

Travelers who have viewed the wonderful docking systems of Liverpool, London, Southampton and other British seaports must rub their eyes in amazement at this dictum, wondering why the British government ever permitted, much less aided, the construction of these marvels of engineering for the facilitation and extension of international trade. And this utterance of Premier MacDonald was made, too, at a time when all the world was crying for markets in which to dispose of their "surpluses" of unsalable goods, surpluses which would quickly disappear were the channels of trade freed from their strangling barriers, and quickly arouse a call for "more," so beyond calculation are the wants and needs of the human race!

"Trade is two-way traffic," says Dr. VanAken. No man is fit to legislate on trade matters who does not understand this, who does not know also that all trade is barter, that goods really pay for goods, and that tariffs, by excluding imports, also operate to restrain exports.

It is at this juncture that Secretary of Commerce Lamont rises to rebuke those who say the Smoot-Hawley bill will choke our exports, pointing out that this prediction was made of the Fordney bill, with results as shown in the table of imports and exports in the last ten years printed above. He certainly can have no real comprehension of the pamphlet on "The Balance of International Payments" which his Department has just issued, and which happens to be the eighth successive exhibit of the same kind. Trade does balance at some figure, but it must balance at a lower figure of total exchanges if either credits or debits be artificially restricted. The natural and inevitable effect of the world's tariffs is to hamper and restrict the total of the world's trade and industry.

His Department's report shows clearly why our exports were not drastically reduced by the Fordney tariff law. Our total creditor position in world trade (excluding war debts) is approximately represented by the total by which exports have exceeded imports in the ten years covered by the above table. The world has paid us for that excess in securities—stocks and bonds—yielding in income last year no less than $876,000,000, which cannot be paid in money but must be paid, if paid at all, in goods and services. How long can this process continue?

If we desire to pursue this kind of business indefinitely, and are able to do it, perhaps Secretary Lamont is right. We doubt if a "favorable" trade balance so secured and maintained is of any real value either to the United States or "abroad." Our creditor position grows larger, and the sums due us as interest and dividends expand in proportion. It involves a vicious circle of increasing loans in order to sell goods.

STEPHEN BELL, Foreign Editor *Commerce and Finance.*

Charles Hecht Urges Sane Taxation

FORMER Committeeman Charles Hecht, an ardent advocate of the Single Tax, spoke briefly before the township committee and stated that the cure-all for the situation was to tax full value on the land and to reduce the taxes on improvements. Mr. Hecht and others who advocate the idea of the Single Tax (and there is a lot of merit to it) feel that the increased value of land resulting from the improvements going on around it, is a value occuring to the owner of the land which he has in no sense earned. The present method of taxation encourages the holding of considerable sections of land in anticipation of increased values due to public improvements and the owner thereby "gets something for nothing." Mr. Hecht stated that at the last session of the Legislature Assemblyman J. M. Thompson attempted to pass a bill taking 10% off of the improvements and adding it to the value of the land. The speaker declared that there would be plenty of work for everyone if the right system of taxation was adopted.

—Lakewood, N. J., *Citizen.*

IF the tariff will banish unemployment and give everyone "high wages" and more "purchasing power" and produce a surplus of revenue for government purposes, why are not all other taxes and occupational fees immediately abolished?

—WALDO J. WERNICKE in Hollywood *Daily Citizen.*

THE taxation of the site value, if it could replace the whole of the rates on buildings, would entirely sweep away this obstacle to the builder's enterprise. So far as it is used to diminish the rates on building it diminishes the obstacle. For many years we have maintained that the greatest and simplest reform in housing would be simply to lower if not to sweep away the tax on building.

—*Manchester Guardian.*