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TRADE BALANCES AND WAR DEBTS

The following article is written at the suggestion of a friend, who, sending the Editor a copy of a "Letter to the P resident on Foreign Trade," written by George N. Peek, Special Adviser to the President on Foreign Trade, asks the Editor to discuss the matters therein contained in terms simple enough for the ordinary reader to understand.

In complying with the request to simplify the contents of the document referred to above, it behooves me first to state that Mr. Peek's message bears estimates of America's trade balances with the world as a whole during the last 38 years, or from 1896. And that calls for a brief discussion of the nature and wherefores of trade balances.

If there were only two countries in the world, the matter of estimating trade balances would be very simple. It would be on a par with the case of two neighbors who provide each other with whatever the one has to spare that the other needs and at the end of the year tally up the values furnished by each and determine who owes the other and how much. But suppose that the one has a truck and the other none, and the former has done all the hauling, it is plain that he may make a fair charge for his neighbor's share of the hauling, and that that charge would cancel a part of his debt if he had got more of his neighbor's goods, or would increase his claim upon his neighbor if the latter had the balance of trade against him. Suppose A has got 100 bushels of corn from B at 65 cents a bushel, while B has got a cow and calf from A at $50 and three pigs worth $3 each. It is plain that A owes B the difference, or $6.00. But A has done the hauling, for which he charges B for his part $3; then it is clear that A owes B only $3.00. But A recalls that he loaned B four dollars in cash one day. That means that B really owes A $1.00.

Well, that one dollar is the balance of trade. It is in A's favor, though he got more of B's goods than B got of his. And that one dollar is all the coin that has to pass in making a complete settlement of the whole year's interchange of goods and services.

When Several Nations Are Involved.

The difficulty of checking the balances with each country is more complicated when several nations are involved in a continuous interchange of goods. For example, America might buy more goods from Brazil than it sold to that country. England, on the other hand, might sell more goods to Brazil than it buys from it, and less to the United States than it buys from us. In the three-cornered settlement, the balance against this country in Brazil might be settled by cancelling it with England's balance against Brazil. The international banks act as clearing houses. Here is a charge of a million, say, of England against Brazil; here is a charge of a million of America against England, and the same of Brazil against the United States. It is clear they balance off. And thus the balances are cleared as far as possible between all the nations.

Peek Finds Data Insufficient.

Mr. Peek, in making his estimates of the balances as existing between America and the other nations as a unit, finds it difficult to find sufficient exact data, and recommends an improvement in the future records or bookkeeping. But he has worked out the best he could the several items in the balances and the total balance for each of four periods and for the whole period of 38 years.

The Nations in Lurth to Tune of $22,645,000,000.

In brief, Mr. Peek finds that the other nations of the earth have received between twenty-two and twenty-three billions more from America in goods, services, cash, and every other item that becomes a charge in favor of or against a nation and its people in the course of general trade and intervisiting of the peoples. For example, a thousand dollars spent by an American tourist in France will balance a thousand dollars' worth of American goods sold to a French merchant. A loan to a foreign country increases the balance in favor of the lender. Interest payment by a foreign country increases the balance in favor of the lending country—that means that just that much more money would have to be sent across to balance the books or the accounts between all elements of each of the two nations.

War Debts Included in Above Balance.

The $22,645,000,000, which Mr. Peek reckons as the sum from other nations include the much discussed war debts, and the man who sent the Peek statement to our friend sent along with it a quotation from an address by Senator Borah, bewailing the repudiation of those debts by the nations, thus indicating that parties interested in the collection of the war debts are using the Peek statement for propaganda purposes.

Those Debts Are a "Dead Horse."

No more pertinent characterization of the war debts and most others of the more than a score of billions has been seen by this writer than that of a "dead horse" by Collier's Magazine. Even the mortgagee finds no satisfaction in seizing his neighbor's dead horse. The sooner he is buried the better for everybody.

Three years ago when this writer set forth the thesis that goods can be effectually paid for only in goods and services, the doctrine seemed an utterly new one in this country. But the sentiment has decidedly changed and my individual view of three years ago is now the general view. It is a recognized fact that there is not enough gold in the world to pay the debt due America. If America once got all the gold any of it that should go back except in actual payment of the balance of trade (which would have to be against us) would again create the debt. On the other hand, if we had all the gold and the balance of trade remained in our favor, we could not get any more gold to settle it. So it is impossible that the debt can never be paid in money, and that if it could, it would mean the end of foreign commerce.

We Might Have Had It in Goods.

On the contrary, it could be paid in goods simply by our buying, say, a billion dollars' worth of goods more each year than we sell, at least, to the debtor nations. That door has been open all the time. Germany, England, and almost any other debtor country would have been only too glad to sell us the goods. We simply didn't want them—wouldn't have them. From Finland we did buy more than we sold to her, and all she had to do when her payment became due July 1 was to credit the United States with the amount of the payment. It simply lessened the amount America had to pay her to that extent. No other debtor country was in that fix, and it was no fault of theirs. We don't want goods from abroad that we can produce ourselves. That is the short of it. The farmer in the case with which this article began wanted his $1.00 in money or in something that he didn't have enough of. The man who had bought his corn may have had corn himself to spare at settling time but if the other had plenty of corn, he didn't want any more.

How Big Is That Dead Horse?

But let's inspect that "dead horse."—Maybe it was a pony instead of the Percheron the figures would indicate. Its size bulks large in dollars. But let us remember that real values do not change. Prices do change. True values are determined by the sum total of efficient labor and efficiently used capital involved in their creation. The labor and capital (money isn't capital) necessary to produce a bushel of wheat or a ton of steel during the war period were no greater than last year, yet the billions of dollars loaned to the European nations during the war were largely paid in American goods bearing three times the prices the same goods bore last year or in 1914. That is, we actually loaned the Allies a definite amount of labor and capital rental. Paid back in terms of the gold dollar any time within the last five years we should have been trebly paid. On the other hand, if paid in goods we should have received the benefits of three times the amount of labor and capital rentals that we consumed in supplying the goods which made the war debts.—And that at a time when ten million men were idle in America! The people of this country would scarcely have been willing the past five years for a million men to come into America and work for nothing. We had more labor, more capital, and more raw material of nature's producing than we knew what to do with. And goods from abroad, in the ultimate analysis, are nothing but labor and capital rentals materialized.

How Exchange and Labor Sales Affect the Size of the Dead Horse.

It has been shown above how the war debts, the biggest item in the world balance of the last 38 years in our favor, performs the feat of Governor Vance's catfish when reduced to terms of labor and capital rentals—they "swink," as the Negro told the Governor when he had cut off the catfish's head. And when those inflation dollar measures cease to apply to the actual goods of which the war debts largely consisted we find that they have "swunk" almost beyond recognition.

But, next, let us consider what America with its high-exchange-rate dollar and goods produced under the "American standard of living" was doing to the countries whose currencies rated low because of the money material upon which they were based, yet because of the low per-capita circulation were of exceedingly high value at home when used for wages or for payment of goods. Take the Chinese or Indian trade for examples. While the producers of American goods sold to those countries were getting several dollars a day each of which was worth five or more Mexican dollars, the Chinese and Indian laborers producing the goods sold to America were getting only the equivalent of a fraction of a Mexican dollar. Accordingly, when it came to balancing off the goods bought and sold of or to America, it is evident that one day's labor of the American laborer bought several days' labor of the Chinaman or Indian.

That was a fair trade if the efficiency of the American was actually so many times greater than that of the foreigner. Yet the probability is that the American would be no more efficient in producing the goods we buy from those countries than their actual producers are. Probably no American textile workers have the skill in producing silks that the Chinese have. We buy millions of eggs from China, yet a member of a woman's missionary society here not so long ago could have sold a dozen eggs and sent the price to a missionary in China and he could have bought three dozen with the money. The difference was due to two factors—the high exchange value of our dollar and the low wage and commodity prices prevailing in China because of the small per capita circulation of their cheap money—cheap in terms of gold but high in purchasing and buying value in China because of its scarcity.

The twenty-two billions of debts were built up during periods of the high exchange value of the American dollar and high wage scales here. The debt has not increased since 1930—in fact, the indebtedness, according to Mr. Peek's figures, has decreased considerably over a billion dollars within the last four years. Necessarily, then, when the debt was made America was selling real values at a great premium over the same values in the customers' countries, and if the horse is dead upon which we prided ourselves this inspection should convince us that the world does not owe us in terms of brawn and skill and capital rentals anything like the sum it shows up to be in dollars. Our trading with the cheap money and low wage countries has been on a par with that of the merchant who might buy a Negro's watermelons at five cents a piece and charge him five cents a piece for bananas, or the dealings between a lawyer and his client, the former charging five dollars an hour for his work and allowing the client to work it out at a dollar a day. If the client should balk when he had worked forty days on a fifty-dollar debt charged for ten hours' work, the lawyer would have little reason to grumble.

Suppose the Debts Could Be Paid in Gold?

But let us assume that the debts can be paid in

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