balance of a nation's trade can only be known when not only the commodity items are considered, but also the "invisible" items such as interest, freight, immigrant remittances, financial services, tourist traffic, etc. In short, all debit and credit transactions must be set down in order to find out the true balance. If all the visible and invisible items are thus tabulated the debit or credit difference will be a final invisible item—capital import or export—and this will bring the nation's trade account into a state of balance. Thus, the commodity trade balance of a country cannot be understood by itself but only as it is interpreted in the light of the invisible items of a country's international transactions. In the light of such data, it will be found that a so-called favourable or unfavourable balance will mean an entirely different thing at different times in a country's history. The balance of international payments, which takes account not only of commodity trade but of all transactions, reveals the meaning of the trade balance. It shows, for example, that in 1920, 1921 and 1922 our international accounts were balanced by large imports of capital, although our commodity trade balance was favourable in 1920 and 1922. During these years Britain repaid us war funds as follows: 1920, $104,000,000; 1921, $128,000,000; 1922, $84,000,000. From 1923-28, however, the international accounts show a credit balance after allowing for interest payments and maturities, thus denoting capital exports. In these years Canada became temporarily a capital-exporting country. In these latter years, therefore, the explanation of our favourable commodity trade balance was quite different from that for the period, 1894 to 1903, when it was explained by payments of interest and maturities.

From the foregoing it will be seen that an estimated balance of international payments is indispensable to the understanding of trade accounts. It has, however, a great many other important uses, among which the following may be mentioned: (1) to give a comprehensive picture of our international debits and credits and how they are balanced; (2) to show the extent of our international borrowings and lendings; (3) to show the magnitude of individual invisible items, such as interest, freights, tourist traffic, etc., in our international transactions; (4) to explain exchange disturbances and the effect of international financial difficulties; and (5) to furnish data for guidance in the formulation of international fiscal, financial and commercial policy.

As already stated, in the years from 1923 to 1928 Canada became temporarily a capital exporting country. This was the result of abundant funds accumulating in the Dominion owing to three causes. In the first place, there had come into the country during the War about $1,250,000,000 through the purchase of our commodities at high prices; this was seeking an investment outlet. In the second place, the large investment of United States capital in the Dominion from 1914 to 1920 was now increasing the nation's output. In the third place, successive large harvests at relatively high world prices were a foundation of prosperity. These factors combined, caused an unprecedented accumulation of savings, which was used by financial institutions and individuals not only to finance domestic capital needs, but also to avail themselves of opportunities for profitable investment abroad. The prolonged and extravagant "bull" market in the New York and other United States' stock exchanges culminating in the early summer of 1929 and the high interest rates prevailing in those markets attracted enormous sums to the United States from other countries, including Canada. Thus from 1923 to 1928 we had on balance an export of capital to our credit, though at the same time other countries, particularly the United States, continued to invest large sums in the Dominion.