

DEFENDING CANADA'S ECONOMIC POSITION

New York Criticism Brings Many Replies From the Dominion

An interesting discussion among Canadians of the economic position of their country, relating particularly to her immense consumption of imports bought on credit, followed the publication of a study of the situation there that was printed in *The New York Times Annalist* on May 12th. Mr. Fred R. Macaulay, in that article, said that no nation, whether in time of peace or of war, had ever so rapidly expanded its adverse trade balance.

In a general way, a somewhat strained position in credits is admitted by Canadians, but by common consent they declare that the growing imports to which attention was called are imports of capital goods to be used in further development of Canadian resources, and that these do not reflect upon Canada's business and financial soundness.

Professor James Mavor, head of the department of political science in the University of Toronto, in a long statement printed in Canadian papers says:—

"The excess of imports over exports in Canada, including specie, has been increasing during recent years by leaps and bounds. That this remarkable movement is worthy of serious attention cannot be doubted, but that in itself it affords cause for alarm cannot be admitted. Analysis of the imports shows conclusively, to my mind, that they consist of material for railway and other building construction to the largest extent and to articles for luxurious consumption to a relatively small extent. The loans which have been effected in England have entered the country chiefly in the form of goods from the United States, and if the analysis before mentioned is correct, these goods have predominantly been used for the purposes of development.

External Supplies of Capital.

"Again, if a country has had, as Canada has had, a period of very active constructional development, and has had the advantage of the importation of external capital. The utilization of this capital involves the investment of capital in numerous subsidiary enterprises, which are dependent upon the continuance of the external supplies of capital. Thus any check from whatever cause to the supply of capital from abroad must affect such enterprises almost immediately.

"It must be realized, so far as this country is concerned, that the amount of investment of English capital which it has been fortunate enough to secure within the past five years, forms actually a very large proportion—not less than 20 per cent. of the total amount of English capital applied for by the world. We are thus now thoroughly drawn into the network of international finance and we must suffer the disadvantages as well as enjoying the advantages of it. The situation in Europe has undoubtedly cleared, and with the passing of the tariff in the United States the situation there will soon be cleared also. Readjustment of the values of real estate in the urban centres in the north-west will undoubtedly have to take place before complete confidence in that region can be established."

As to the Trade Balance.

S. R. Tarr, of Winnipeg, delivering an address before a convention of credit-men a few weeks ago, said:—

"Passing from the borrowings and spendings of the west to those of Canada as a whole, we are brought face to face with the fact that last year there were over \$5 worth of imports for every \$3 worth of exports in the country's trade total of about one billion dollars, which means considerably more than a quarter billion dollar excess of annual buying over selling. Disparity in amount between exports and imports is inevitable to rapid upbuilding of a new country. The construction of permanent works, railways and so forth, and the opening up of new agricultural areas give rise to an increasing demand for foreign goods. Croaking critics sometimes make the mistake of counting our borrowings twice. They mention the fact that there is an import excess of over a quarter billion dollars and also that Canada's annual borrowings run to around a quarter billion. They add these items to make half a billion—forgetting that the two items are in a large measure equivalent statements of the one thing, since it is chiefly in the form of goods that borrowings abroad are brought into the country. More careful analysis of this matter than is usually given is highly desirable, if we are to know how we are heading.

"A London critic a year ago spoke of the alarming sum of \$572,000,000 as being the fifteen years' excess of Canada's imports over exports. According to *The Wall Street Journal*, in less than half that time—in the seven years ending with

1912—675,000 newcomers from the United States have brought over \$775,000,000 of tangible wealth into Canada.

"In so far as our excess imports, paid for by borrowings, are utilized in developmental work (whether for railroad building, necessary civic works, manufacturing or business plants, housing newcomers, or for sustenance of labor engaged in developing the resources of a new land) they can legitimately be considered as capital expenditure. In such case excess imports do not constitute a real 'dipping into capital' at all, but an expenditure on capital account, calling not for lump repayment but for continuous profitable returns in time to come. Here is the crux of the whole. It is not a question of whether Canada continues to import vastly more than it exports during the next few years; it is a question of whether such excess of imports is brought about through upbuilding a solid commercial and industrial fabric, or whether it reflects business extravagance and the spending of capital as though it were income."

Omitted Essential Factors.

Referring to Mr. Tarr's address as a "reasoned and logical" reply to the critics, Mr. W. M. Ramsey, head of the New York agency of the Merchants Bank of Canada, writes in a letter:—

"Professor Macaulay draws his conclusions solely from the superficial figures afforded by the balance of Canada's trade, and takes no cognizance of the essential but invisible factors although acknowledging that there can be 'the continual favorable balance (of trade) of such a debtor nation as the United States. Mr. Tarr draws explicit attention to these other factors, which are as surely vital to the whole question as the aggregate of exports and imports.'"

Banks Saw It Coming.

A representative of the Canadian Bank of Commerce writes from one of the principal branch offices in Canada, in part, as follows:—

"Banks in Canada, as you know, have opportunities of seeing these things coming and have taken a decided stand in ample time to prevent financial panics and overspeculation. If one can judge from reports in the papers, it would appear that yesterday's market in New York indicated that conditions there were not too good, and it seems to us that the difficulty lies in the attitude of the Continental banks, especially in Germany, in selling a great number of American securities.

"Taking all in all, I would say that, generally, conditions are better to-day in Canada than they were three months ago, the banks are in strong positions and have their houses clean and in order."

The Monetary Times has previously dealt in detail with Mr. Macaulay's article.

THE SENTIMENT OF CAPITAL

We cannot confess to a heart wrung with anguish by the cry that the British investor will lend us no more money because the Senate killed the Naval bill. If the thrift of a borrowing country is any excuse for lending it money, then Canada must have acquired merit with the British investor for not throwing away thirty-five million dollars on three dreadnoughts which Winston Churchill said the German menace did not need.

British capital, we are told, is sentimental. Quite true. That is why it goes anywhere in the world where the security is sound and the interest sure. It probably feels sentimental toward Canada because we have always paid well and there has been no trouble collecting. That is enough to warm any creditor toward the object of solicitude. Capital, British or otherwise, will always adore with passion tender the country that returns its affection with interest. In this way alone, is British capital, or any other capital, sentimental. It dotes on us, so to speak, so long as we have the price. Its love is anywhere from four per cent sentimental up.—*Toronto Star*.

"I believe that 50 per cent. of the automobile claims in number and more than half in the amounts paid are due to cranking accidents. If, therefore, the users of automobiles would crank their cars with their left hands instead of their right, claims of this kind would be reduced fully two-thirds." This is the opinion of an accident underwriter of over 20 years' experience.

At 4½ per cent. the Bank of England rate remains at a level higher than any maintained at this time in July during any year since 1873. Furthermore, in 1873, the rate was at this time descending rapidly. It had been 7 per cent. in May, 6 in June, and it went down to 5 on July 10th. to 4½ on the 17th, to 4 on the 24th, to 3½ on the 31st, and to 3 in August. Not since 1875 has the Paris bank rate ruled as high as 4 per cent. in the middle of July.