Canada's Economic Expansion

Saving and making money—Financial strain not over

By W. W. SWANSON.

It has been truly said that the financial power of the Anglo-Saxons lies in their ability to make money, while that of France, Belgium and Holland is found in their power to save. Fifty years ago the bourgeois class of Holland and France saved at least half their income, and from that day to the present there has been no diminution in the acquisitive instinct of these continental nations. On the other hand, the United Kingdom, its Dominions and Dependencies, as well as the United States, have affected to despise thrift, considering it tantamount to parsimony. At the outbreak of hostilities the United Kingdom, in point of view of fluid capital, was the wealthiest nation in the world; and France and Germany, foreign investments considered, ranking second—Germany having $8,000,000,000 as against France's $7,000,000,000 placed abroad. Great Britain had investments throughout the world amounting to the amazing total of $26,000,000,000, an amount never before even approximated by any other nation in the course of history. The United States, at the outbreak of war, had not more than $2,000,000,000 invested in foreign securities, and concessions. This did not mean that the United States was not as wealthy, at least from the standpoint of market values estimated upon its domestic material possessions, as the great European Powers, but merely that its increment of fluid capital annually created was required for economic expansion at home. The war, however, has effected some surprising results in the international money situation; the Republic, not from plan but from the force of circumstances, having suddenly emerged among the nations of the world in the role of a great creditor. All of this will have far-reaching results upon Canada's economic life and its financial future.

At the time of writing the final results of the Victory Loan are not available; but if it brings the $500,000,000 maximum desired, Canada will have outstanding war obligations to the extent of over $1,-200,000,000, the interest upon which will annually require $67,000,000. While much has been said of the financial strength exhibited by the Dominion during the course of the struggle, its full significance is even yet but dimly understood. Everyone knows that the country's external obligation at the beginning of hostilities amounted to $3,000,000,000, and that the balance of trade was heavily against us. The excess of exports over imports for the fiscal year ending March 31, 1918, can hardly be maintained for the year 1919; but sufficient is known to give assurance that the country is not merely meeting its interest obligations, but is building up considerable credits against its external debt. On the other hand, there is no room for congratulation over the fact that the internal debt is merely a matter of bookkeeping between Canadians themselves. It is a sheer fallacy, into which Lloyd George and other prominent statesmen have fallen, to assume that a domestic debt is of less consequence than financial obligations to foreigners. The outworn idea that "our money must be kept in circulation at home, and not exported abroad," is ready to be thrown upon the economic scrapheap of discarded shibboleths and catchwords.

Premier Lloyd George was doubly right when he made the memorable assertion that "silver bullets" would be decisive in the struggle; and that in this particular Great Britain enjoyed a great advantage over the foe. The long duration of the war has somewhat obscured this fundmental fact. Everyone will agree that munitions, men and materials, are a sine que non for waging war successfully; but it is by means of money that these factors are given full weight and power. It is wrong to assume that the money situation in Germany had no vital relation to the carrying on of the war, as long as soldiers and supplies were available. Soldiers and supplies can only be utilized by means of the power of finance; and there has been for a considerable period detailed evidence that the money situation in the Fatherland was difficult and dangerous. The billions of dollars of paper currency issued by Germany and Austria, taken in conjunction with the flotation of enormous war loans, has induced inflation, raised prices enormously, and caused economic distress and misery. The frantic cries in Berlin for the abdication of the Kaiser are caused no less by the hopelessness of the country's economic condition than by the knowledge of impending military defeat.

Canada's economic future rests in great degree upon its ability to finance industrial and agricultural, as well as commercial, undertakings. Let it not be thought that the conditions obtaining during the struggle will last—that the nation can rely upon its own resources for economic development. True, the capacity to produce millions for the carrying forward of industrial activities will be utilized in post-bellum days; but the Dominion must necessarily turn to the London and New York markets for the requisite capital to take care of development enterprises. The recognition of this fact need cause no apprehension, even among those who, in 1914, were alarmed at the proportions which the country's external obligations had assumed. It is vitally essential that capital flow to Canada after the war, if annual economic expansion, upon which the prosperity of the nation stands, is to be assured. Every nation in the pianeer stage has been compelled to borrow to make progress; and to this Canada can prove no exception. What confidence may we have, however, that London and New York, and notably the former, will be able to provide the Dominion with essential capital in the future?

The fortunes of war, which more than once appeared to swing against the Mother Country, particularly favoured her with respect to the security of her external investments. In a sense it may be said that British finance took out a policy of re-insurance in placing foreign investments; as English money was invested in many different parts of the world where it would yield most profit. South America, with the exception of Brazil, has not been directly involved in the struggles. And in the Argentine alone Great Britain had placed $3,500,000,000. Not a single one of the British Dominions has been menaced by the enemy; and the $6,000,000,000 lent to Australia and Canada has never caused even the shadow of apprehension in the sphere of British finance. True, the loans to the Dominions have not always been successful. British capital has been lost, but the balance is heavily in favour of the United Kingdom. Investments throughout the Empire, the United States, and South America have remained untouched by menace from the Central Powers. Moreover, as our readers are aware, the repayment of loans by the United States to England has been more than offset by the $8,000,000,000 advanced to the Colonies, France, Belgium, Italy and Russia. Great Britain placed about $2,000,000,000 in Russia, before the Revolution; and the Bolshevists have repudiated this debt. It is apparent that the regime of the Soviets will soon come to an end; and Russia will learn, no matter what type of government is in control, that a nation cannot repudiate its obligations financial or otherwise and be accepted in the family of nations or carry on profitable trade with the rest of the world. A bankrupt pays high for his folly.

It is of supreme interest to Canadians to know that a profound change has taken place in the monetary habits of the British people since the outbreak of war. England was rich, not because it had the gift, nor the instinct for saving, but because the nation had the capacity to "make money." As most of us are aware, this nation of spenders has been transformed by the exigencies of war into a nation of savers. It is approximately accurate to say that at least 5,000,000 individuals are voluntarily saving weekly sums, in the United Kingdom, for investment in War Savings Securities. In some sections of Yorkshire, Lancashire and Kent there is not a single family that does not make its weekly contribution to the financing of the war. Scotland has made a remarkable record in this respect, as might be expected from its equally remarkable record in voluntary enlistments and the percentage of its population at the front. It is through the sale of these securities, as well as the flotation of loans, that Great Britain up to the present time has arranged war credits to somewhat more than $40,000,000,000. All of this has been accomplished while paying not less than 25 per cent. of the annual cost of war by taxation, and raising the national income from $12,-000,000,000 to $15,000,000,000. Indeed, we have the assurance of Sir George Paish, Editor of the "Statist," that the financial strength of Great Britain, notwithstanding the staggering responsibilities on war account, has been actually augmented during the course of the struggle.

Let it be recalled, moreover, that the United Kingdom and the United States alone among belligerents remain upon a gold basis. Both nations have been compelled to issue paper currencies; but the amount in each case is relatively insignificant in comparison with the total volume of credit and the ability to pay gold on demand. English financiers have exhibited courage and foresight, as well as consummate ability, in financing the war, and in maintaining London's financial power unimpaired. For the time being the London money market is controlled by the Government; and it is difficult to finance through it the enterprises of foreign nations, or even the British Dominions, not to speak of private undertakings. To such an enormous extent, however, have the London banks and financial houses built up their credits during the war, and so huge is the volume of private savings, that it may be predicted with confidence that Canada will secure essential supplies of capital to cover its economic expansion after the signing of peace. Nor should money rates rule high for any considerable period after the close of hostilities—indeed, if a period of industrial depression should ensue in Germany, Austria, the Balkans and Turkey, there may even be a sharp decline in interest rates. The demoralization following upon military defeat, in Germany and Austria-Hungary, may well cause these conditions to obtain.

As for current commercial business, Canada has learned that the chartered banks will measure up to any test legitimately imposed upon them. The conduct of banking in this country during the course of the war has been little less than brilliant. While the nation has temporarily suspended specie payments, our paper currency, both bank notes and Dominion notes, remains equal to gold. Unfavorable exchange relations with the United States have not come about because of the gold situation in Canada, but because of the heavy balance of trade against us,—that is, as far as the Republic is concerned. In our judgment the chartered banks have not received due credit for their achievements during the past four years. The present fever of industrial and commercial activity has submerged in our economic thinking the fact that industrial depression followed the outbreak of war, and that it required herculean efforts to reverse it. In financing war industries, as well as legitimate private enterprises, the chartered banks have played a major role. They have discounted the future; they have run big risks; and have vitalized the productive power of industry and commerce. On them will fall in great degree the task of transforming our economic activities from a war, to a peace, basis. It will be delicate and difficult work; but we may feel assured that the banks will play their part well in placing Canada's industry and agriculture on a productive peace basis.

WAR CLAIMS.

The Government has directed the preparation of a list of claims by Canadians arising out of the illegal methods of warfare by the enemies during the war. These claims arise through the torpedoing of ships without warning, the aerial bombing of unfortified places, and commandeering or requisitioning without compensation, destruction and similar illegal acts on land. The Canadian claims are largely limited to the first clas mentioned. The claims relate to loss of life as well as of property. A further list is also to be made covering claims for damages arising out of breaches of contracts with neutrals which were declared illegal because of the neutrals making the claims being on the Statutory List of persons in neutral countries, commonly called the Black List. All persons having claims indicated should file them without delay. The making of this list does not imply an undertaking on the part of the Government to put forward the claims at the Peace Conference, or any assurance that if put forward they will be paid. But the list should be completed without delay so as to enable the Government to make a demand if an occasion therefor should arise. Instructions, showing the method of filing claims and the proof to be forwarded, may be obtained from Thomas Mulvey, Under Secretary of State, the officer appointed by Order in Council to prepare, examine and report upon the claims.