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Our Trade and Exchange With United States*

Invisible Factors Swell Our Adverse Balance With That Country—All Important Exchanges Are At a Discount in New York—Some Important Effects on Canadian Trade—The Securities Embargo and Its Effects.

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FOREIGN trade as conducted between civilized nations to-day is, after all, only an improved system of barter. Instead of exchanging one or more articles for one or more other articles as was the custom in by-gone days, and is now in some outlying districts, we carry on trade by mediums of exchange, that is, by the use of various credit instruments, the most common of which are bank credits of various kinds and bills of exchange with shipping documents attached, in fact, it may very properly be said, that every foreign trade transaction unless purely barter is represented by a credit instrument in some form. When such documents have been washed—that is, set off against each other—and this to all intents and purposes is done daily,—the balance due to or by a country is determined.

Settlement of Balances

For many years prior to the war these balances were settled by shipments of gold, or sale of securities which simply postponed the debt. As this was done at a comparatively small cost, the question of foreign exchange gave us little or no concern, because the moment the premium on the funds of a creditor nation reached a point where it paid to ship gold—between here and New York the cost was 75c. per $1,000—the gold was exported and the debt cancelled. As a matter of fact, transactions were not always cleared in the direct manner I have just described. Frequently they were settled by a three-cornered transaction or possibly even further extended. For example, Canada might buy cotton from the United States on the one hand, and sell wheat or meat to Great Britain on the other, which latter country might direct the Argentine to cover its debt to Canada, either by the shipment of goods and, or the shipment of gold to New York. Canada would thus be placed in funds with which to extinguish its debt to the United States. The war has changed all this, however. Because of the inflation of the currency of practically all the civilized countries of the world, the shipment of gold was prohibited by their respective governments. The country, therefore, which imported more goods than it exported, created an adverse balance which could not be settled as in the past by the shipment of gold, hence the citizens of such debtor country having obligations to meet in a creditor country, were forced by the competition for funds available in such country, to pay a premium, therefor—the premium being governed by the supply and demand.

This is the situation which at present exists between Canada and the United States—Canada the debtor nation and United States the creditor.

*Part of an address before the Board of Trade, Toronto, March 18, 1920.

Our Balance With United States

According to the best information obtainable at the moment, we exported last year goods to the value of approximately $300,000,000 more than we imported. Against this, however, we had large payments to meet for interest on our obligations held abroad, and for shipping charges, insurance premiums, etc., all of which payments have the same effect on the exchange situation as the importation of goods.

It is estimated that $1,200,000,000 Canadian securities are held in the United States, the interest charge on which is placed at $65,000,000 and about $2,700,000,000 securities are held in Great Britain, the interest charge on which is approximately $125,000,000—or a total annual interest charge of say $190,000,000. To this large sum must be added our payments for shipping charges and insurance premiums, estimated for the past year at $60,000,000. Another feature not to be lost sight of, is our exports to Europe during the year for which we have not yet been paid. This as closely as I can gather amounted to a further $60,000,000 or a total of say $310,000,000 against the $300,000,000 excess exports—a net debit balance for the year of $10,000,000. To this must be added a further large sum for repatriated securities, if I may use the term. You will, doubtless, have learned through the newspapers or otherwise, of the recent action of the Minister of Finance in requesting bond dealers and brokers to discontinue the importation of Canadian securities from Europe, which in most cases were comfortably domiciled there for years to come, but which on account of the favorable rate of exchange, insofar as Canada is concerned, were being purchased and brought over here in large amounts, with the result that our cash resources, so necessary for the carrying on of the commerce of the country, were being rapidly depleted.

The amount of the securities so purchased and obligations liquidated are estimated roughly at $100,000,000, a considerable proportion of which were afterwards sold in the United States, but insofar as we can learn $25/50,000,000 have been retained in Canada, or went to reduce the debenture indebtedness of certain investment institutions doing business in Canada.

Final Balance Against Us

You will, therefore, see that our real position for the year, insofar as foreign trade is concerned, was an adverse balance of between $30/50,000,000, and this accounts for the present discount on the Canadian dollar in the United States.

I do not claim that the figures which I have just quoted are accurate. While care has been exercised in compiling they are, after all, only estimates, as apparently it is

(Continued on page 16)