Canada's Financial Balances Abroad

Heavy Favourable Trade Balances do not Tell Whole Story—Dominion Still a Debtor Country—Repurchase of Securities Held in Britain—United States Market has been Resorted to for Public and Private Loans

By "INVESTICUS"

IS Canada really a creditor nation? Having raised among her own people large sums of money through war loans; having granted large credits to Great Britain and other allied governments, besides having piled up heavy favorable trade balances—the impression has gained ground that Canada has been converted from a debtor into a creditor nation. No true Canadian would think of minimizing his country's splendid financial achievements during the war; but dwelling on these, to the exclusion of other phases of the national financial situation, is producing harm. It is time that the public were given a true perspective of the finances of the nation; that, to use a common expression, it were brought to realize just where it is at. It is only by such means that genuine progress will be made in solving either the exchange, or other problems of a financial nature. This is a time for deflation, for the deflation of some of our big ideas, as well as for deflation of the currency and of values generally.

It will readily be admitted that the Dominion, which, prior to the outbreak of war always went abroad for the money it needed, has given a surprising demonstration of financial strength in subscribing over $2,000,000,000 to the various domestic war loans. But this did not convert her from a borrowing into a lending nation. In raising the money what Canada really did was this—she secured at home 85 per cent. of the money she borrowed for national purposes during the war. Americans took $315,000,000 of the various issues.

"But," says someone, "did the government not make advances to Great Britain and other allies to an amount exceeding $1,000,000,000; and does not the British government still owe our government $180,000,000, in addition to owing Canadian banks a similar amount?" This is very true; but even these transactions have not made Canada a lending nation, in the true sense of the term.

Canada Acted as Banker

What occurred was this: Our government borrowed heavily from its own people, and, with a portion of the money, it bought from its own people certain products which, in turn, it sold to the British and other governments on easier terms than had been customary. The banks, of course, used their own funds. But while this was being done Canada still remained a debtor nation by reason of her heavy borrowing abroad. Her case was identical with that of the man who, doing business on borrowed capital, is able to sell on time. No one would think of putting in the money-lending class a person doing business under these conditions. If he were in a position to lend he would hardly be doing business on borrowed money. In making these advances Canada merely applied some of her savings for the purpose of temporarily helping out some good customers. But granting a little banking accommodation is quite different from placing herself in the creditor class.

It may, however, be said, "do not our public men and also some of our financial leaders, speak of Canada as having been converted from a debtor into a creditor nation?" This is true, but general statements usually require qualification. Put the question straight to these men—is Canada really a creditor nation? And they will begin to explain what they mean. Now, at best, the remarks of such persons can relate to nothing more than the changing of the huge adverse trade balances, which were a feature of pre-war years, into favorable balances, which, happily, has continued since 1915. A creditor nation, in reality, is not necessarily one that has a huge excess of exports over imports. On the contrary, the greatest creditor nations invariably have what is termed an adverse trade balance. Strictly speaking a creditor nation is one that has pretty well bought up its outstanding securities abroad, or that is in a position to do so; which supplies its own domestic demands for capital, and which invests in other countries. Obviously Canada is not in this class. Nor is it any disparagement to her that she is not.

Trade balances can not be accepted at their face value. They do not tell the whole story. During the last five years Canada has piled up large favorable balances, but it would be a mistake for one to run away with the idea that the accounting is so much in her favor as these figures would indicate. The favorable balances are as follows:—

1915	$ 5,996,864
1916	271,483,226
1917	333,940,881
1918	623,916,327
1919	343,491,853
Total	$1,578,829,151

Visible Balances Only

The trouble with these figures is that they do not represent the actual situation, for they make no allowance for invisible payments. Before one can say that in a given year the trade balance is a certain sum in favor of the country, one must deduct from it an amount representing the annual interest payment on foreign borrowings, also further amounts due to other countries for shipping and other services. At the outbreak of war Canada was sending abroad $135,000,000 a year in the form of interest and dividends on investments. At the present time this payment it between $190,000,000 and $200,000,000. It would be a fair assumption that the average annual payment on this account during the last five years has been $160,000,000, or a total of $800,000,000. For shipping charges and money spent by Canadians abroad let another $40,000,0$0 a year be added. This would bring the total payments under these headings during the last five years up to $1,000,000,000. Deduct this from the aggregate trade balance and the latter is reduced to $578,829,571.

Put this against the money that has been received through the sale of bonds in other countries:—

Bonds sold in U.S., 1915-1919	$793,014,913
Bonds sold in Great Britain, 1915-1919	70,880,133
	$863,895,046

Those at all acquainted with the situation know that this sum does not represent the total investments of outside capital in Canada during the last five years. One billion dollars would be well within the mark. This means that during the last five years Canada has been drawing money from abroad at the rate of $200,000,000 a year.

Much Borrowing in United States

In their thoughts on this subject many people are led astray through failure to take into account all the factors that promote borrowing abroad. Knowing that Canada has been touching almost the $700,000,000 mark in her Victory loan campaigns, they seem to conclude that all the money the country needs is being raised at home. They