1898 as a typical year:

Canada's Foreign Trade—1898.

Canada's Exports	$164,152,683
Canada's Imports	140,323,053
	$ 23,819,630

That year there was a surplus of twentythree million dollars which Canada probably used to pay a portion of her interest on foreign capital invested in this country. As the total interest due to foreign investors would probably be fifty or seventy-five millions, there was still a deficit of twenty-five or fifty millions. This had to be paid by more borrowings. If this is correct, then the summary would be as follows:

Canada's Balance Sheet—1898.

Exports of Merchandise	$164,152,683
Exports of Securities	50,000,000
	$214,152,683
Imports of Merchandise	140,323,053
Imports of Interest Coupons	73,829,630
	$214,152,683

When we borrow we export securities to cover those borrowings. When we pay interest abroad we import the interest coupons which have been paid.

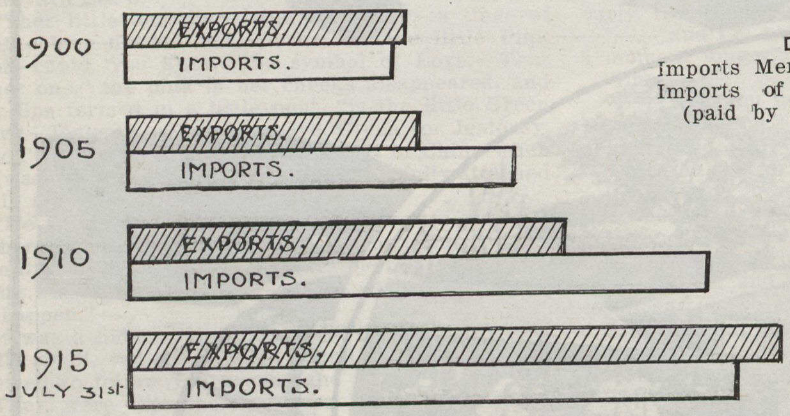


Diagram drawn to scale to show growth of our external trade in fifteen years, and that imports have, on the average, far exceeded exports.

Therefore, the above table might be a sort of balance-sheet as between us and the people abroad with whom Canada does business.

This balance sheet is a favourable one. We sold more than we bought; and while the balance was not sufficient to meet our interest, yet it went some way toward it. This was the case in 1895, 1896, 1897, 1898, 1900 and 1901. In those years Canada was growing in strength, developing normally, and was in a generally sound economic position.

This is the position which the United States has occupied for twenty-five years. Their exports always exceed their imports. Take 1901 as an example:

United States—1901.

Exports in 1901	1,487,764,991
Imports in 1901	823,172,165
Excess of Exports	$664,592,726

In other words, the United States had a surplus of six hundred million dollars to apply on its interest bill due to foreign investors and to pay for the spendings of its people abroad.

A CHANGE IN HABIT.

HAD Canada continued to follow this policy, as the United States has done before and since 1901, then Canada might have had less of a boom, but we should have avoided the bursting of the bubble.

Let us see what happened. Canada began to buy wildly. Imports grew terrifically and there were no balances. In 1902, we had a balance against us in merchandise account of less than a million; in 1903, it was sixteen millions; in 1904, it was thirty-six millions; in 1905 it grew to sixty-three millions. Without going into too much detail, let us take the totals 1902 to 1914:

Canada—1902 to 1914.

Total exports for 13 years	$3,644,000,000
Total imports for 13 years	4,980,000,000
Excess of imports	$1,336,000,000

During this whole period, Canada was not paying its interest abroad in goods. Therefore, it was necessary to borrow abroad to keep that interest paid up. Then we borrowed more money to pay for the extra goods which we bought in the form of mining machinery, locomotives, passenger cars, steamships and so on. A balance sheet for that period would be somewhat as follows:

Canada's Balance Sheet—1902-1914.

Credit.	
Exports Merchandise	$3,644,000,000
Exports Securities to pay interest abroad (estimated)	1,300,000,000
Exports Securities for new borrowings	1,336,000,000
	$6,280,000,000
Debit.	
Imports Merchandise	$4,980,000,000
Imports of Interest Coupons (paid by borrowings)	1,300,000,000
	$6,280,000,000

Comparing ourselves with the United States we find that during the same thirteen years, the United States had a balance the other way of over six thousand million dollars. Both countries were prosperous, but the United States was paying its foreign debts at the rate of over four hundred millions a year, while Canada was increasing hers at the rate of two hundred millions a year.

This is a striking contrast. Canada was borrowing profusely. Canada was borrowing to pay her interest abroad instead of paying that interest out of earnings. On the contrary, the United States, while also a borrowing country, was keeping its interest paid by an excess of exports. It was not borrowing to pay interest.

THE CULMINATION.

CANADA'S greatest borrowing year was in 1913. It was the activities of 1913 that caused bankers at home and lenders abroad to get scared and "shut down." Here are the figures:

Canada—1913.

Exports	$393,232,057
Imports	692,032,392
Excess of Imports	$298,800,335

In the year 1913, Canada ran behind at least three hundred million dollars. That is, Canada borrowed abroad three hundred million dollars which went to supply this country with the vast amount of goods which it was thought advisable to import, and another hundred and twenty-five million to pay interest due abroad.

To make this clearer, the accounts for 1913 might be framed as follows:

1913.

Exports merchandise	$393,000,000
Exports securities to pay interest due abroad	125,000,000
Exports securities to pay for extra imports	299,000,000
	$817,000,000
Imports of merchandise	$692,000,000
Imports of Interest Coupons	125,000,000
	$817,000,000

That is Canada's greatest record of borrowing, so far as the official figures show. In 1914 there was less borrowing, although the balance was still against us.

Of course, there are explanations. We were building railways; new settlers were rushing in and bringing with them large quantities of household goods and implements; vast quantities of machinery for mines and factories were imported. Nevertheless, the fact remains that Canada was not exporting enough to pay interest on her accumulated debts. We were as a nation paying interest out of capital, a proceeding which is considered illegal in the case of a private company.

There had to be a stop some time. That stop began in 1913 and was continued in 1914 up to the time war broke out. Then, on August 3rd, there was a full stop. Since then Canada has, by necessity, changed its policy.

The proof of this is found in the latest returns. Here they are:

Canada's Trade August 1914—July, 1915.

Imports	$419,000,000
Exports	451,000,000
Balance to apply on foreign indebtedness	$ 32,000,000

Canada has thus, in 1914-1915, gone back to the policy followed in 1895 to 1901—our exports are larger than our imports. This may be an evidence of a bursted bubble. It may be evidence of restricted development. But it also is a sign that Canada is trying to pay part of its foreign indebtedness in goods instead of in "paper."

IN CONCLUSION.

THE writer is not trying to set up any theory of adverse balances nor aiming to advance any special economic theories. The facts are simple and the conclusions largely apparent.

No country, be it said again, can go on indefinitely borrowing money abroad. There must be settlement days occasionally. Canada, by the record of her imports, borrowed over thirteen hundred million dollars, in the form of goods alone, between 1901 and 1914. Unless that money was used to the greatest advantage and every dollar earned a high rate of interest, there was certain to be a "slump."

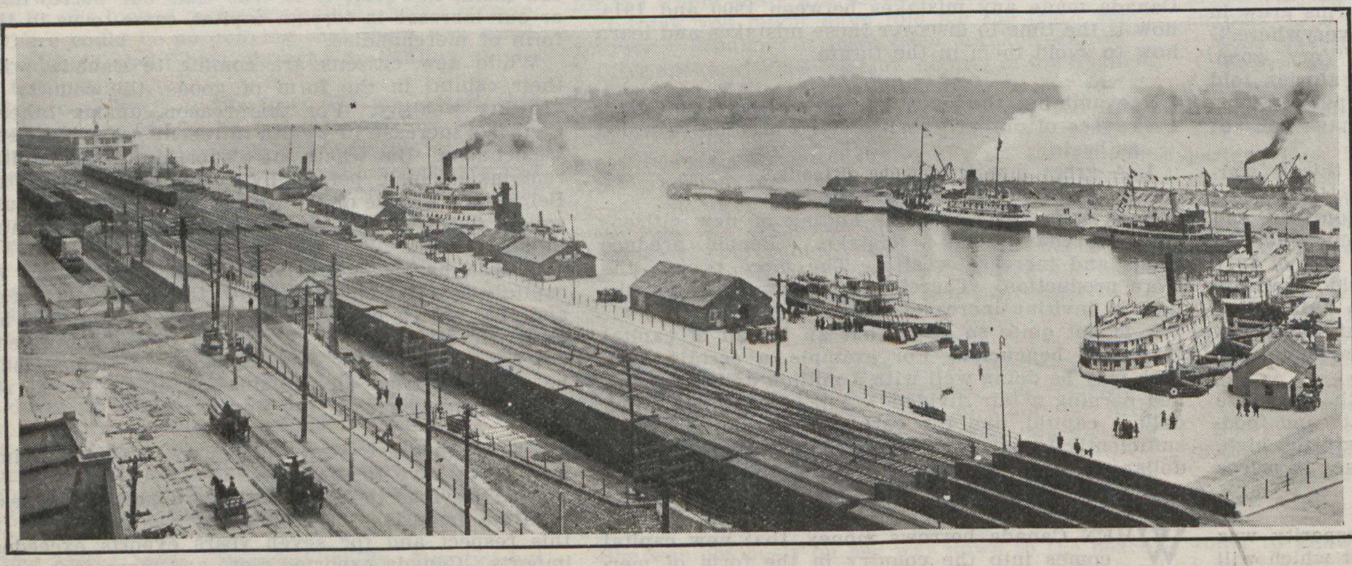
Part of these huge borrowings may be capital which is permanently invested here. Canada will not have to export interest on all of it, but we must earn that interest whether the capital is owned by new Canadian citizens or by people resident in Great Britain and foreign countries. That is the great problem which Canada must face and which she is facing bravely at the present moment.

It is quite true that the value of exports per head grew from $36.37 in 1901 to $59.32 in the year ending March 31st, 1914. Yet that growth in exports did not counterbalance our tremendous buying abroad. During the same period our purchases abroad increased from $35.24 per capita to $80.50.

Of course, Canadians would not have been so reckless had it not been for the confidence of foreign investors. They patted us on the shoulders, called us fine fellows, told us we had a great country and pressed money on us. Then, one day, they turned their back and hung up the sign, "This is our busy day."

Curiously enough, any ordinary observer might have told Canada that we were going pretty fast. Perhaps some of the wise ones did tell us, but we never heard them. All the figures in this article are to be found on one page of the Canada Year Book. All the totals, all the percentages, all the per capita averages. Any politician could have found them. Any economist could have told us they were there. Any banker could have pointed a long, lean forefinger at them and said, "Look—Learn." But no one put the message in a form we could understand.

Canada's boom will come back, but Canada must be more careful in its borrowings. Capital will continue to flow this way and will be profitably employed. But we must learn that every new dollar brought in by a new citizen and every dollar borrowed from a foreign capitalist must be so invested as to produce an adequate return. Otherwise Canada will find itself with idle capital at home and with a huge indebtedness abroad which will be a burden. Therefore, the setback to our borrowings which we are now experiencing is but the first step in the restoration of more normal conditions. It is not something to make us afraid, but a state of affairs which should brings pleasure and satisfaction.



A bit of Montreal Harbour, through which flows much of Canada's Exports and Imports.

Photograph by courtesy C. P. R.