

authority of the State, invited public confidence. For the ability of a company to meet its insurance contracts depends upon a variety of circumstances, of which this valuation regards but one, not always the most important. This is particularly and notoriously the case with a company which consists entirely or largely of paid-up insurances; for two reasons: first, because the system makes no allowance whatever for expenses on this class of business, but assumes that the entire work of the company will be conducted gratis—an assumption not justified by experience in human affairs; and, secondly, because in practice a company is never brought into this condition except by wholesale lapses among the sound lives paying premiums, so that its mortality is sure largely to exceed the estimates. Nevertheless, it is a general truth, that if a company's lives are fairly selected and widely distributed, if its business management is free from extravagance and dishonesty, if its contracts with agents and other assistants are prudently made, and if its investments are safe and productive, then there is no danger that it will be found wanting by such a valuation, unless it is selling its insurance too cheap, either by premiums too small, or by dividends too large. In this case the valuation becomes a wholesome check; the necessity of meeting it compels the management to refrain in competition from lowering its prices too far. The supervision which carefully insists upon all the other conditions of solvency named may reasonably find an ally in this. But in practice our State supervision has concentrated all its attention on this point, and disregarded the others. It has magnified this into exclusive importance, and taught or compelled the companies to sacrifice every thing else to the apparent attainment of this standard. It has educated the public to trust this test alone, and to regard the published reports of the departments as disclosing an order of merit in the companies, founded solely on the strength of the nominal reserve. A few facts, easily understood, will make the errors of this course obvious.

To be Continued.

PROTECTION CIRCULAR.

MONTREAL, July 10, 1877

DEAR SIR,—The unfavorable changes which have taken place in the trade of this country during the past three years call for a careful consideration of its present position, whether we are likely again to return to a prosperous condition of affairs, or not.

That evil times have befallen the country we think no one will deny; that we have enjoyed many years of growth and prosperity in the past is equally evident. The question which naturally arises and which we propose briefly to consider, is: Whether the prosperity of the past twenty years has been the result of the wisdom of Canadian legislation, or of exceptional circumstances which have passed away and are not likely again to return.

In looking back over the Commercial history of the country since 1854, we think its wonderful growth and prosperity are traceable chiefly to two causes.

- 1st.—The operation of the Reciprocity Treaty.
- 2nd.—The American Civil War.

The beneficial effects of the former continued until its abrogation in 1866 and the latter till the panic in the United States in 1873. Since then the Commercial and Industrial interests of this country have been rapidly declining.

Referring to the statistics of the trade of the country previous to the Reciprocity Treaty, say from 1849 to 1854, they exhibit a very small volume compared with their growth after the Treaty went into operation.

The total exports of all the British N. A. Provinces to the United States in 1849 only amounted to about two millions of dollars.

The country was at this time in a chronic state of discontent, there being but few manufactures in the Provinces, the farmers were consequently without a home market for their produce, which was chiefly shipped to England, as the United States markets were closed against us by high duties.

A writer in Blackwood's Edinburgh Magazine thus forcibly describes the condition of this country at that period:—

Extracts from Blackwood's Edinburgh Magazine.

"CIVIL REVOLUTION IN THE CANADAS. Not that the panic in the Colonies arises from the people not having plenty to eat, they have plenty, thank God, and to spare, but they have nothing in their pockets! And what is worse, we are afraid that if they go on much longer as they are now doing, they will soon be without pockets too. Factory Cotton may be but four pence a yard, but if they haven't the four pence it might as well be as dear as diamonds so far as they are concerned. The policy of England has been to convert the Colonies into marts for her manufactures. The United States meanwhile pursued an entirely different system; they rigidly adhered to the system of forming manufacturing interests of their own, and of fostering and encouraging them by every means in their power. While the Colonies therefore bought with the produce of their country, broad cloths, cottons, silks, blankets, scythes, hardware and crockery, which were manufactured in England, they saw all the profit of their manufacture, their sale, and their carriage go to another country to be spent among another people. The Americans, on the other hand, who bought with the produce of their lands, the manufactures of their own country, saw the profits of those manufactures applied to the building up of factories, villages, and towns, which brought together a useful population.

"The advantages of the one system over the other, however, did not stop here. The necessities and the advantages of manufactures, which first dictated the making and improving of a common road, next conceived the benefit of a railroad and canal, and the profits of manufacturing were straightway applied to their construction. The United States farmer, therefore, imperceptibly to himself, was placed within a few hours of the best markets on the continent, found his produce carried to them for a trifle in comparison with what it used to cost him, and found withal the process which made it so, bringing thousands of people into the country to develop its riches, to increase the price of its lands and to contribute to its civilization and commerce, from the establishment of a college down to the building of a blacksmith's shop. The colonial farmer who bought the goods of an English or Scotch manufacturer, contributed to send those manufacturers' children to schools, to give them a profession or leave them a fortune."

This was the condition of Canada previous to the Reciprocity Treaty in 1854, as described by this writer, and the truth of his statements is fully confirmed by those who were engaged in the commercial and agricultural pursuits of the country at that time. We have said that the total exports from all the B. N. A. Provinces to the United States in 1849 were about two millions of dollars. The Reciprocity Treaty which went into force in 1854 swelled those exports to nine millions, and in 1866, the last year of the Treaty, they reached the enormous sum of forty-eight millions.

It must be borne in mind that during the existence of the Treaty Canada enjoyed all the advantages of the American Markets, free of duty, and obtained *war prices* for her products during a considerable number of years.

Another element of prosperity was the increase of the tariff in 1859 from fifteen per cent. to twenty per cent., which continued

until the confederation of the Provinces in 1866. It was during this period that the manufactures of boots and shoes, hats, cotton goods, clothing, agricultural implements, sewing machines, and other industries sprang up in various parts of the country. The wealth thus created by those industries was spent in the country instead of being sent abroad. The high prices also of all kinds of goods in the United States in consequence of the late civil war, had the practical effect of a high protective tariff to Canadian industries, which greatly increased the internal wealth and prosperity of the Dominion.

This prosperous condition of affairs continued until the failure in the United States of the Banking House of Jay Cooke & Co., in 1873, and the collapse of several other American enterprises born of the war. The United States since this period have been gradually settling down to their normal condition as it existed previous to the war, with, however, this radical difference in their relations to Canada, namely, that through the operations of the United States protective tariff they have become one of the great manufacturing nations of the world, and in addition to supplying their own wants, they are throwing their surplus manufactures all over the Dominion, prostrating our industries and seriously threatening their annihilation, besides draining the country of both men and money.

We think, therefore, it is clearly apparent that the prosperity of the country during the past twenty years is traceable mainly to the effects of the *Reciprocity Treaty and the war*, rather than to the wisdom of our legislation, which we believe will be confirmed by any one who will carefully examine into the subject.

The question of the day to be determined is: What measures will be best to restore prosperity to the Dominion as a whole, and meet our changed condition.

Without entering into an elaborate argument upon the subject, which this circular will not admit, we think the remedy is within ourselves, and is comprised in a very few words:—*The foundation of our National Wealth must come from the internal development by labor of our agriculture, mines and manufactures. From the products of these we supply our own wants and pay for our foreign imports. The ability of the country to pay for these imports is measured by its internal creation of wealth from the labor of the people.*

Whether Canada will ever attain that growth and wealth to which her great natural resources justly entitle her will depend, in a great measure, upon whether our legislation is directed to the development of our industries or not; whether we will legislate to employ the labor of our own people and retain the product of that labor to be spent among ourselves, or employ the labor of other countries and send our wealth to be expended in those countries.

The following extract of the principles announced by Sir A. T. Galt, in a recent letter, we think suggests the true remedy for the restoration of the country to prosperity upon a sound basis. The utterances of so able and experienced a statesman are worthy of the fullest consideration. He says:

"In the adjustment of a progressive scale of duties, the general principle should be held in view, that the rate of duty should have a certain relation to the outlay of labor and capital upon the raw material of which any article is composed; for example, pig iron should not pay as high a duty as a pen knife."

This is the declaration of an important principle. Its intelligent adoption will again set in motion the sluggish wheels of industry within the country, and bring from the bowels of the earth the rich ores and minerals now lying valueless, and convert them into wares and merchandise for the use of our people, the labor of whose hands will thus constantly contribute to the wealth and progress of the country.