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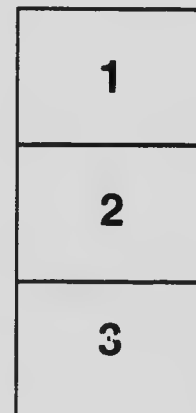
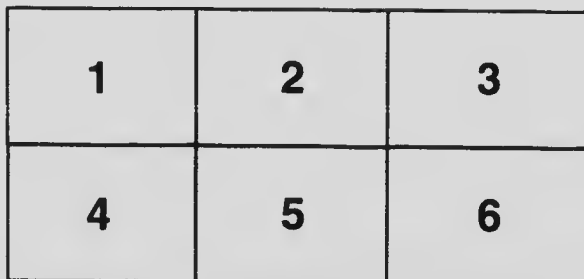
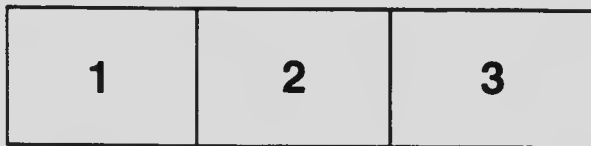
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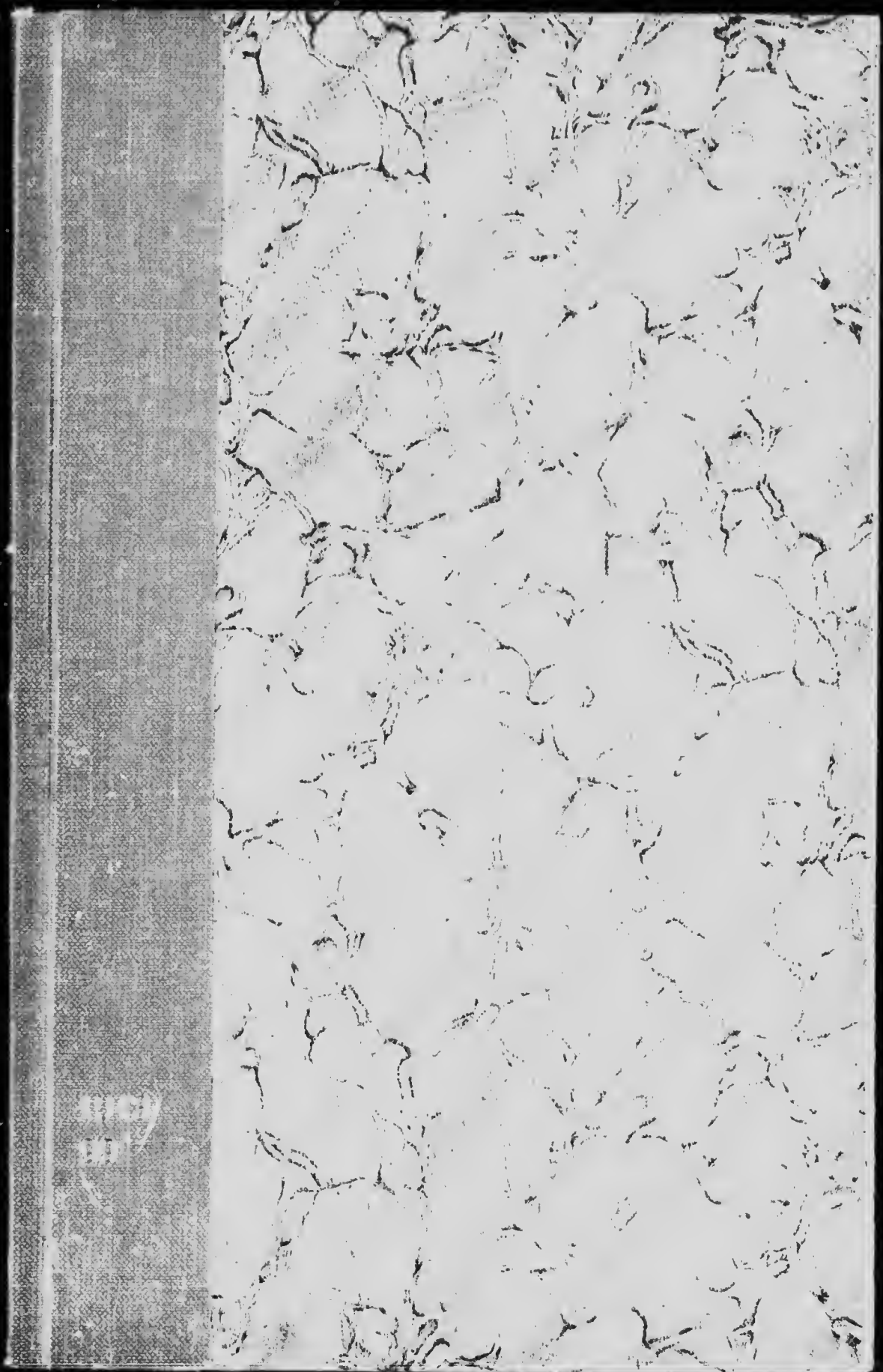
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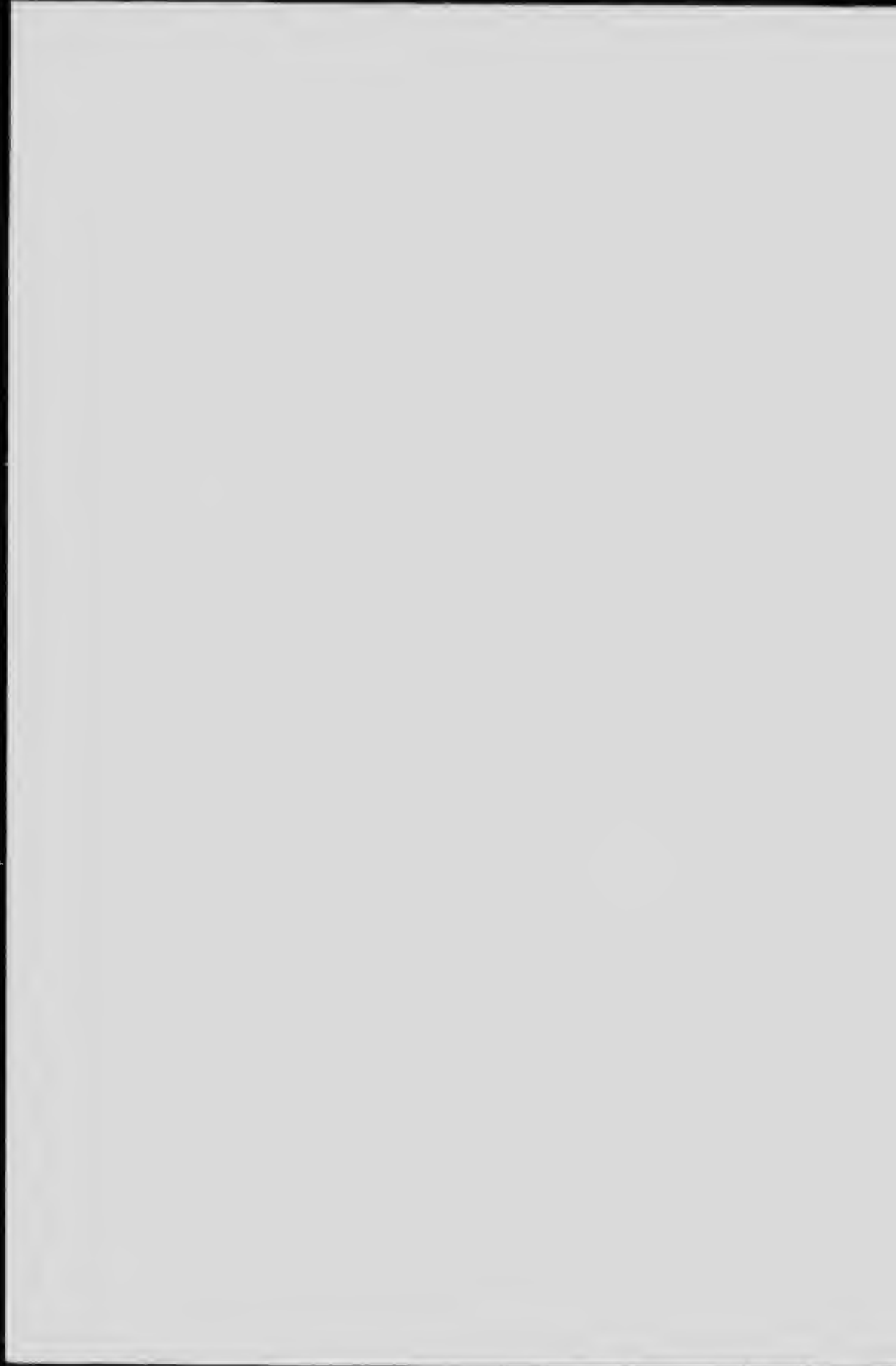
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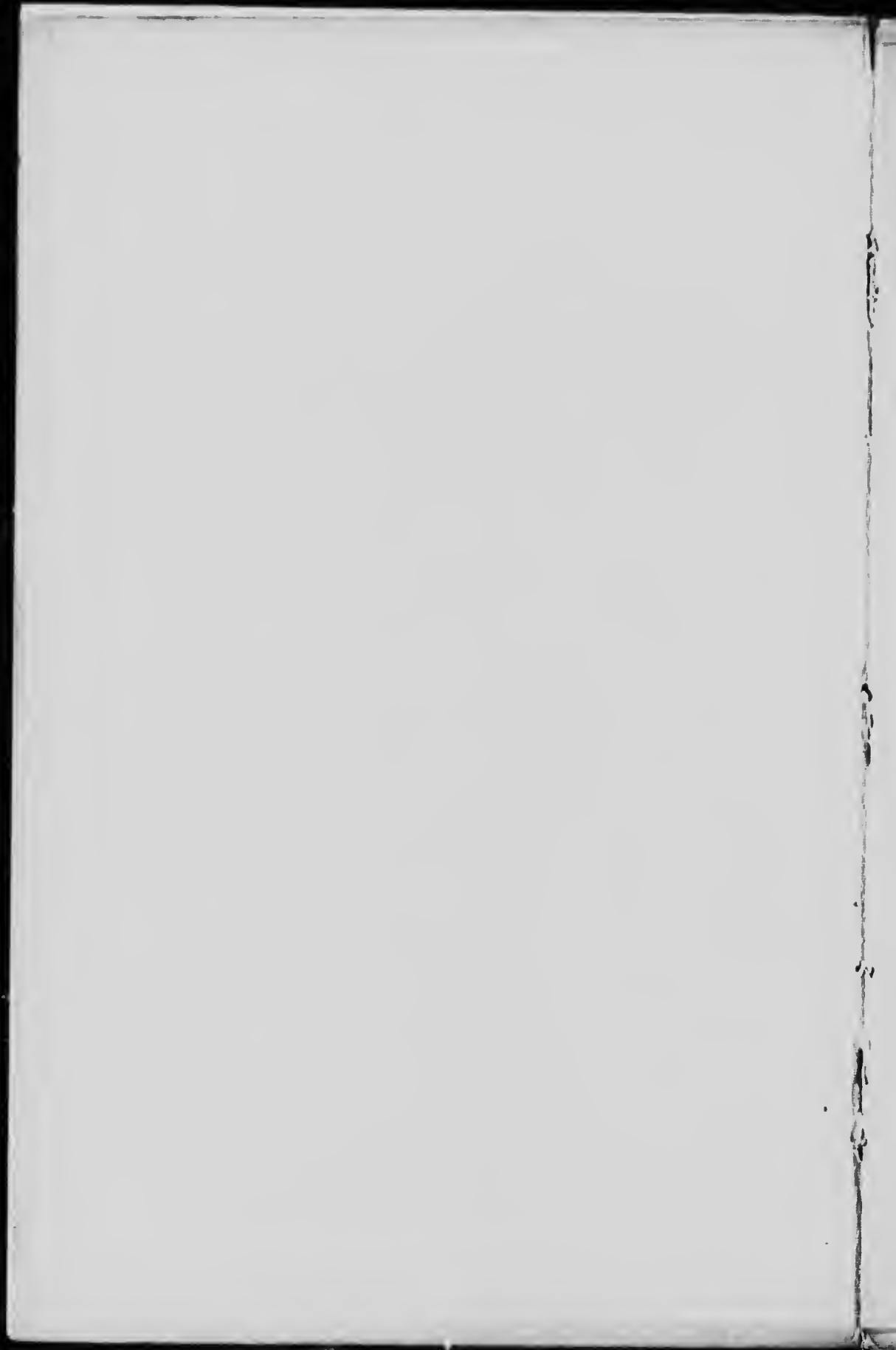


# **The Financial Outlook in Canada**

By

**Sir George Paish**

Editor of "The Statist," London, England



# The Financial Outlook in Canada

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SIR GEORGE PAISH

Editor of *The Statist*, London, England

D.S. WILSON ARCHER

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# The Financial Outlook in Canada

BY SIR GEORGE PAISH.

Editor of the Statist, London, Eng.

AT a special meeting of the Canadian Club held on the 4th Dec., Sir George Paish said:

*Mr. Chairman and Gentlemen,*—I have very great pleasure in speaking to you to-day, for several reasons, one of which undoubtedly is my personal admiration for Canada, and my admiration also for the personal ability of you in Toronto. And I chose this subject because I thought you particularly would be interested in it. I trust you will agree with me that the subject selected is not without a certain amount of importance at the present time. The subject is indeed of interest not merely to you business men of Toronto, and not merely to every citizen of Canada, but is one that is in the minds of business men all over the world, and especially it is in the minds of the bankers of the world. People are asking what is the financial outlook of Canada?

## *Review of Past Fifty Years.*

Of course, no one acquainted with the natural wealth, the potential wealth, of Canada has any doubt about its future. Indeed, most people who have given thought to the matter expect that the course of affairs here will resemble very closely the course of affairs in the United States over the last century. You will remember that country made enormous progress from decade to decade, but after a period of about ten years there was a reaction, just in order to give the country time to recuperate. Now in a somewhat similar manner Canada moves on. It goes before my memory and my times, but my reading tells me that you made very considerable expansion in the 60's; then in the 70's, in common with the rest of the world, you made a halt and there was very little progress; in the 80's you went ahead again, building the Canadian Pacific Railway and building up your country; in the 90's again you halted and made very little progress; now in the last ten years you have made a great leap forward. Your progress in the last ten years has indeed been of the most remarkable character. You have built here, in a comparatively short time, two great systems of railway,

at enormous cost; you have extended the Canadian Pacific Railway in every direction, and you have added additional lines of traffic; and beyond this, the old Grand Trunk Company has greatly improved its system. And in doing this, you have spent a great sum of money.—I think the amount is not far short of £175,000,000 (175 millions sterling), a very great sum to spend in a short time.

#### *Railway Construction.*

While the expenditures are now nearly over, I am told that the Grand Trunk Pacific has only a few miles now to construct in order to have the roadbed completed from one end of the country to the other, it has still several hundred miles of rails to lay, but that is a comparatively inexpensive work, and a number of bridges to build, but for all practical purposes the financing of the Transcontinental Railway is finished. The money has been raised, and it is obvious that after finishing your great railway the Company will be obliged to proceed slowly with capital expenditures, will have to make productive the vast amount of money sunk in the undertaking. That, of course, will involve a certain amount of trade diminution; capital is not coming in so fast. The Canadian Northern is not so far advanced as the Canadian Pacific Railway, but there is not much need to advance all your great roads to completion. So you are approaching the time when your great railway systems are nearly completed, and when consequently the influx of capital for their construction will greatly diminish.

#### *Canada's Borrowings.*

Of course, beyond the capital that has been coming here for your railways, great quantities have been coming for your municipalities and for all kinds of enterprises. The amount is so great that very few people realize or appreciate it. The Mother Country in recent years has provided Canada with the sum of no less than £250,000,000, a sum you will recognize, that is a very large one. I am told that the United States has also provided a very large sum of money. The result is, that at the present moment the Canadian people owe to foreign countries—or to the United States and—I can scarcely call Great Britain a foreign country—to Great Britain as well, a sum of no less than £600,000,000, or \$3,000,000,000; and it is now up to the country, up to Canada, to provide the interest on this great sum of money.

### *Can Pay Interest.*

Those of us who are optimistic about the future of Canada recognize that with such a great influx of capital it is necessary for the country to go rather slow in capital expenditure, in order that the interest on that capital expenditure may be provided, and in order also that Canada may not borrow beyond its power to pay interest. For myself, I am convinced that Canada is able to bear this interest burden. (Applause.)

### *Canada's Favored Position.*

Canada is in a very privileged position. We in England greatly admire the Canadian people; we have a great sentiment of friendship for you; and the result of this sentimental attachment is the important material advantage to Canada, that we have loaned this great sum of 500 millions sterling to Canada at a rate of interest only slightly over 4 per cent.; we should have given it to any other country, at any rate any foreign country, for 5%. (Applause). That means, that although you owe us 500 millions sterling, yet this costs you not more than 400 millions sterling would cost any foreign country; in other words, you have got the advantage of borrowing an extra hundred millions for nothing. (Laughter.) On the capital you have borrowed from the United States you are paying a higher rate of interest, because most of that capital has come in for industrial operations, giving relatively higher returns. But when one adds the whole amount, I think the interest paid by Canada for loans obtained from abroad is not much more than 4½%; in other words, you have incurred a yearly burden of £27,000,000, and it is that sum you have to provide.

### *How Borrowings Have Been Spent.*

Now, how are you going to provide it? What is the result of this expenditure of money? Well, in the first place, you have extended your railway system from about 18,000 miles to about 35,000 miles in the past ten years. That is, your railway mileage in operation last year was nearly 27,000, but beyond this nearly 9,000 miles were under construction, and most of this will be completed and opened for traffic within the next two years. Therefore you have got there a great machine which will help you enormously to increase your wealth production, and will enable you, I hope and believe, to find that great sum of annual capital without great or serious difficulty.

*Agricultural Development.*

I think it will mean, for the time being, that those trades which have gained from this great influx of capital will be comparatively slack; on the other hand, those natural occupations, such as farming and mining, which largely gain from these natural resources, shall all make very rapid progress. We shall all be greatly disappointed if they do not. When one notices the enormous expansion that has taken place in the past few years in these directions, one gets some slight notion of the enormous expansion that should come in the next decade or so. You will realize that a farmer when he starts in business has necessarily to put under cultivation a relatively small acreage, but as the years pass his acreage increases, and we expect that that is what will happen in Canada: that your wealth shall increase, with the result that in a short time your production of wheat, oats, and all other agricultural products for which you are famous, will immensely expand; and, consequently, the burden of this interest, which now may be rather heavy, will in a short time become light, so light indeed that you will be warranted in going ahead again in railway construction and in spending still greater sums of money.

*Transition Period.*

Sir, with regard to the situation, I hold feelings of great confidence. (Hear, hear.) There is only one matter upon which I am in any way disturbed, and that is the transition from what I may term the existing condition of things, or rather the condition of things a few months ago, to the condition of things when capital will come in less freely. I want you to realize that in the current year the influx of capital shows no serious diminution. The contraction noticed in one or two quarters is due to other causes. The amount of capital provided by British investors has continued to grow and has reached \$80,000,000, and during the year the amount subscribed at least will probably reach 160 millions, a sum far greater than we have ever previously loaned. So the reaction is not due to any diminution of the influx of capital from England. Therefore, as you will realize in the future, you have yet to experience the effect of a really serious diminution of capital. I am positive that in a year in which you are most cautious the amount of capital will still be large; I shall be disappointed indeed if it ever falls £20,000,000 a year. Nevertheless, it is important for business men and traders to realize this fact, which we have noticed in other nations, that in a period of small borrowings by a country

the usual effect is to draw away its gold supplies; the gold goes out to countries that will continue to sell goods, because the traders, not knowing that it is desirable to buy in a conservative manner, go on buying, expecting the public to go on buying. I would urge the traders of Canada in this matter to act in a conservative manner; and if they do, no unfortunate consequence in the diminution of influx will result: if the stocks are not allowed to accumulate on the hands of manufacturers and traders, then there will be no outflow of gold, but just a gentle damping down of activity till you are in a position to borrow freely again and make another big step forward.

*A note of Optimism.*

In reviewing these matters, I have dealt purely with Canada. I have given you the views held by a large number of people on the other side. Some of them are much less optimistic about Canada than I am. I have been here, and I feel, therefore, that my optimism is warranted. (Hear, hear, and applause.)

But I want you to realize that the efflux of capital to Canada has only been part of a world movement; that during the period you have been getting wealth other countries have also been going forward, and the amount of capital required to keep the world's trade on its present level is enormous, so that the demand has exceeded the supply. You in Canada fortunately have held a favorable position, and while some countries of the world have had to do with much less capital, you have got a greater quantity. In recent years England has been supplying foreign and colonial countries with capital at the rate on the average of 160 millions sterling a year—in the current year nearly 200 million pounds; but the supply is not equal to the world's demand. The recent Balkan war has disturbed the world's affairs; the outbreak of the Balkan war caused great uneasiness, and while there has been a hoarding of cash to the extent of fifty or sixty million pounds, this has frightened investors. The result is that the amount of capital available to transact the world's affairs is smaller than usual, though we in England have done our level best to make good the deficiency. Indeed, the reaction from recent years will not be confined to Canada, but will be more or less general. Already the reaction in some of the South American countries is quite pronounced. If you go down to Brazil, you will find there conditions not nearly so fortunate as here. We are hoping that Brazil will get through without worse than she is now experiencing; we in England

will do our best to help. Her coffee has fallen in price, and rubber has fallen in price, so she is unable to borrow as much as usual. Still we business men do well to manage our affairs so that we shall not have trouble. Therefore, in making this statement to you business men of Canada, I am hopeful that you will not take any alarm: there is no cause for alarm; but that you will act as the captain of a ship would do, and take in sail when a little extra breeze is coming. (Applause.)

I think the period of reaction will be a short one. For one thing, education in old countries and all over the world has made remarkable strides in recent times: people are not content, in Europe at any rate, with the small incomes they used to enjoy; they are not content to sit down on their capital, at any rate at very low rates of interest, when they can send it to this country, to Canada, and get higher rates.

#### *The Gold Supply.*

Then there is another question, which I think is very important, the question of the gold supply. I was mentioning a short time ago, that you must see your gold ebb away unless you take in sail in time. Well, already the gold is ebbing from Brazil; Brazil is borrowing none; the consequence of the condition to which I refer in Brazil is that there is less than 10,000,000 in gold there. And it is probably that other borrowing countries will lose some of their supplies. But you will realize, that while that is coming back to us from borrowing countries, the world's gold supplies are still as large as ever; we have some of it; and the world's new gold is coming into the world's markets, so the amount of gold will be so great, and money so easy, that the spirit of enterprise will be restored, and not very much time will be occupied in the bringing about of a condition of things such as we have witnessed in recent years: in other words, a condition of optimism, good feeling, and enterprise. So, though I have referred to a possible contraction, a possible halting of things here in certain directions, yet the farmers and those concerned with natural resources will go ahead. The same will be true in mining—that, I hope, will go ahead; and the same will hold of some other things. In a very short time you will again start on the upward course, and the expansion will be nearly as great as in recent years. In other words, whereas the expansion during the past ten years has been 150 per cent., and I think you can rely on the expansion of Canada in the future being at least at the rate of 100 per cent. every decade." (Applause.)







