THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

(1900 - 1936)

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by

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As is evident by an inspection of this thesis, the author owes much to three seperate estimates of the Canadian balance-of-payments by Jacob Viner, for 1900-1913; Frank Knox, for 1914-1926; and the Dominion Bureau of Statistics, for 1926-1936. He wishes hereby to acknowledge the same.

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CHAPTER I

The Significance of The Balance-of-Payments.

The term 'balance of international payments' is not novel. Its frequent appearance in the press, in statements of public policy, and in economic publications has made it generally known. Nevertheless, despite an obvious familiarity, its meaning is usually confused or misunderstood. No distinction is generally made between terms such as 'balance of payments'; 'balance of trade'; 'balance of indebtedness'; 'balance of capital movements' etc. A clear concept of what we are dealing with is therefore desirable. To begin with, no definition of a balance-of-payments which seeks to be comprehensive can possibly be adequate. This seeming contradiction is explained by the fact that in the case of balance-of-payments estimates, it is well-nigh impossible to construct a definition which will be comprehensive, all inclusive and definite. This is due to the nature and scope of the material from which the balance-of-payments statement is drawn. It covers an extremely wide field, is constantly changing and involves questions of statistical technique and procedure. "No brief definition can possibly be entirely satisfactory if it is to cover all the ramifications of international intercourse."[1] A working definition embodying the concept involved is however easily attainable and gives a satisfactory avenue of approach.

For the present, a summary definition will suffice. A

[1] Amos E. Taylor, "Statistical Methods in Balance of Payments Estimates". (American Statistical Assn. Jl.) March, 1937.

balance-of-payments statement of a nation can be briefly defined as "an itemized account of the commercial and financial transactions conducted within a stated period of time, by all the people of that nation with the people of all other nations".[1] Broadly speaking, a balance-of-payments statement is a summary of all the international transactions of a country during a period of time. It is in this sense that the term will be used.

The following is submitted as a working definition of a balance of international payments. The balance of international payments of a nation is a statement of the accounts of that nation of all economic transactions of a revenue nature (that is, involving currency payments or receipts, or setting up corresponding claims) over the international boundary, during a period of time. By 'corresponding claims' is meant the international transactions of a revenue nature which do not involve the immediate transfer or purchase of exchange, remaining as a claim which will involve the eventual transfer of funds and which should therefore be charged to the period in which they occur. For example, in the case of Canada, foreign loans held outside Canada for a period of time before actual transfer is made, or a sale of merchandise, on which immediate payment is not made and which remains in the form of a forced loan. This will, of course, include non-commercial transactions, e.g. charity - insofar as the transfer of funds is concerned.

"The balance of payments statement, is strictly speaking, a balancing of payments statement in which total receipts or

[1]Op. Cit. pg. 1.

'credits' are necessarily equal to total payments or 'debits'".[1] "It is curious to find how long a time it has taken the world to come to a clear understanding as to what a balance of payments statement really means. The idea that the balance ought to show a surplus, but could under unfavorable conditions result in a deficit, has been adhered to with tenacious conservatism. It is only the modern improvement of the balance sheet for a country's international payments that has made it clear that credit and debit must in principle balance, and that if the statistical figures do show a surplus or a deficit when all conceivable items are taken into consideration, such balance must be taken to represent 'errors and omissions' which it is naturally not possible entirely to avoid in such statistics."[2] Assuming that in any economic transaction the parties concerned exchange equal values, the valuations being expressed in monetary terms, the equivalence of a balance-of-payments statement is axiomatic. It is clearly apparent that a balance in the international payments is at any given time, or over any period of time inevitable,- whether that balance is obtained by the adjustment in the items involving goods and services, or by a forced loan or gift. Accordingly words such as 'unfavorable' and 'favorable' when applied to balance-of-payments become meaningless,- and even when considering individual items, it is preferable to use 'active' or 'passive'.

Inasmuch as the balance-of-payments statement necessarily

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[1] Op. Cit. pg. 1.

[2] Cassel, Gustav C., "Foreign Investments" (Harris Foundation Lectures 1928).

deals with the movement of cash funds, or the offsetting credit equivalents, it has no direct application to changes or alterations in the field of foreign investment. Changes in the volume of foreign investment can and do take place without the balance-of-payments in any way being affected. A few simple examples of this are changes in the volume of foreign investment due to depreciation or appreciation of plant, securities etc., losses suffered in business, or profits ploughed back. The state of foreign investment may be regarded as representing a contingent asset or liability. The status of foreign investment is being referred to when the 'balance of international indebtedness' is considered. This is comparable to a balance sheet of the international assets and liabilities of a nation. "The desirability of supplementing balance-of-payments estimates with a statement showing the international investment position (of the U.S.)[1], and, if possible, the changes in this position from one period to another is apparent. This must not be confused, however, with the itemization of the aggregate cash claims which a country accumulates in a given period of time against the rest of the world, or with the transactions through which the claims are met."[2] At the Brookings Institute it is the practice to consider the 'international accounts'; including under this heading accounts such as given in a balance-of-payments statement, and another one, setting forth the foreign debt and investment position as at a given date. "In short, if the international accounts are to

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[1] Writer's brackets.

[2] Amos. E. Taylor, "Statistical Methods in Balance of Payments Estimates" (<u>American Statistical Assn. Jl.</u>) March 1937.

tell a fully satisfactory story they must at first show the international trade and service transactions of a country over a period of time; second, the net changes that have resulted in the country's debtor or creditor position; and third, the debt and investment position at the beginning and end of the period."[1] In this thesis, whereas the subject is primarily the Canadian balance-of-payments, attention will also necessarily be given to this broader aspect of international economic relations.

As may be gathered from the above, the economic reactions with which a balance-of-payments concerns itself and measures, are exceedingly important. Again, the presentation of this information in a complete and comprehensive form is essential. The various items in a balance-of-payments statement have no meaning in and of themselves. For example, a movement of gold has no significance unless it be considered in the light of its relations with and reactions on the other items in the balance. A balance-of-payments statement must be considered in the light of the relation of the changes of the various items with one another. Due to the very nature of the subject, it is often very difficult to ascribe causal significance, or to differentiate directly between cause and effect. In this respect, consider the so-called law of 'promotions and detractions'. "The theory is that every item in the balance tends to influence every other. For example, the increase of any item in the debit column tends to decrease every other item in that column, and in turn to increase every item in the other column. It can scarcely be doubted

[1]Cleona Lewis, "International Balances" (Annals American Academy) March 1933.

that there is a large degree of validity in this concept."[1] But this does not tell us very much. Again, changes in balance-of-payments figures must be considered over a period of time before any real judgment can be made.

The application of the balance-of-payments statement is very wide. Any conclusions about foreign exchange trends (apart from temporary disturbances) must be guided by balance-of-payments figures; the international transactions summarized in the statement determine its level by their reaction on the demand and supply of foreign exchange. Any consideration of the domestic credit structure, gold movements, the ultimate movement of price levels as compared with other countries, ability to pay foreign debts, capital investment and foreign loans, foreign commodity trade, must have recourse to balance-of-payments statistics. In short, as is implied by the nature of its composition, it is basic in the study of the relation of a national economy with that of the rest of the world. Despite nationalistic fervor, a 'closed economy' nowhere prevails, and any international economic activity is reflected in the items appearing in the balance-of-payments.

In the case of a country such as Canada, balance of international payments information is of especial importance. Canada has drawn heavily on foreign capital, its influx being largely responsible for the creation of much of her present-day producing machinery. This has necessitated a steady and growing annual outflow of funds to meet interest and dividend payments and

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[1] J. Donaldson, "International Balances,- Some Theories and Policies' (Annals American Academy) March 1933.

maturing issues to non-Canadians. Again, the investment of Canadians abroad, whilst by no means equal to outside investment in Canada, cannot be considered negligible. Linking the annual net debt service charges payable to foreigners with the relatively large volume of Canadian foreign trade, the importance of foreign exchange to the Canadian economic structure comes vividly to the fore. Recently, tourist revenues have become a most important source of Canadian income, as well as a prominent credit item in the Canadian balance-of-payments; and the size of gold bullion exports has been imposing. Indeed, interlocked as the Canadian economy is with the international economic scene, the balance-of-payments becomes a means of noting and measuring direct international economic effects and any interpretation of Canadian economic and financial policy must take it into consideration.

The belief in a freely competetive and flexible economic system has gone. The day of 'the invisible hand' in economics is past. Reliance on the automatic adjustment of the various items in the balance-of-payments statement no longer is satisfactory. Although the ultimate equivalence of the balance is not in question, there is a good deal more to be considered. The real significance of a balance-of-payments lies in distinguishing the nature and size of the various changes in the items concerned. The beneficent guiding hand of the gold standard no longer induces a presumably satisfactory adjustment. Controls over most of the items concerned are of long standing. The international exchange of commodities is most definitely controlled and regulated by tariffs, quotas, currency regulations. In many countries, exchange control is a definite part of economic policy. This strict control and rationing of foreign exchange gives the government concerned complete power over all international economic transactions, as any transfer must involve the use of foreign exchange (except in the case of barter agreements, which are easily open to governmental supervision). In other countries, whereas such stringent steps have not been taken, governments act to control and limit, if not the volume, the types of foreign lending, also to stabilize and maintain foreign exchange rates.

Control, or manipulation of the various items in a balance-of-payments is therefore not a revolutionary idea. These controls are, and probably will be increasingly, a part of everyday governmental economic policy. The point is that they are being operated independently and haphazardly. No attempt is being made to co-ordinate them and regard the various items concerned as they should be,- as a whole, in relation to one another - the whole issue centering about a balance-of-payments in which they are included. What this thesis proposes, is some policy or plan in the control of the items in the balance-of-payments.

A significant word in economics today is 'policy'. The classical economics assumed that the ordinary interaction of individuals guided by hedonistic motives would evolve a policy in the interests of all. This is not acceptable today. Aimless and unguided economic undertakings lead to chaos and economic stalemate. Policy, or a predetermined knowledge of the goal to be achieved, and the methods to be adopted to obtain this end, is absolutely essential. Especially is this true in regards the various governmental economic controls. For example, a tariff wall should have some meaning and fit into a general scheme of national economic development which the government has in mind. That tariffs are constructed piecemeal and depend on the varying pressure of the interested groups is, however, well known. If there is to be any logic or sense to what governments do, they should be guided by a predetermined national economic policy and their actions measured by it. Of course, much depends on the validity of the national policy adopted, but this does not refute its necessity.

The same is true of the balance-of-payments. The thread of a consistent scheme in handling a balance-of-payments runs throughout this thesis. This attitude is admirably summed up by Sir Arthur Salter: "I think the right course of action is not that governments should return to the nineteenth-century practice of letting the balances look after themselves under the laissez-faire system and the operation of the gold standard. I think they should each seriously and carefully examine their positions and then aim not at a positive balance but an equilibrium. They should plan in broad outline the main items on both sides of the account, about what totals of imports and exports they aim at; what classes of goods in each category are most desirable; about what import or export of capital they think desirable and so on; and should then use the general conception of policy so arrived at as a guide in determining action in each particular shpere. This would involve, for example, not only a positive limitation of imports considered undesirable, but a positive and definite encouragement and welcome of classes considered desirable, not only a limitation of foreign lending beyond the desirable limit, but a positive encouragement of it up to that limit, and so on...."[1]

This thesis, for obvious reasons, cannot pretend to deal with the wider question of economic planning.[2] In many instances, the general planning of the economy is taken very much for granted. Certainly any proposal envisaging the planning of a balance-of-payments alone would come to nothing. At best this could extend to budgetting the various items in the balance. Such a procedure would be of little purpose if the components of the balance-of-payments were not under control. Any independent planning of a balance-of-payments would be foredoomed to shipwreck on the rocks of individual and sectional interests, if the internal economy were allowed to function freely. It would amount to wishful blueprinting, the realization of which might be hoped for, but not actively sought. Again, and this may be emphasized, planning a balance-of-payments involves more than a mere adjustment of the items concerned. It requires a positive adjustment of the various balances consistent with a policy of national development and future welfare. The question is not one of adjustment but of the right adjustment. The eventual balancing of the statement is not in doubt. The essential point is that the adjustment

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[1]Sir Arthur Salter, "World Trade, and Its Future". pg. 89.

[2]Economic planning can refer to (1) the drafting (or blueprinting) of requirements and objectives.

(2) the actual controls and manipulation of an economy.

The term is somewhat generally used here in the first sense.

achieved by automatic reactions and through the working of the monetary mechanism is not necessarily the proper one. This applies to long-run considerations as well as temporary disturbances.

Planned international trade and transactions are an integral part of the complete planning system. Nevertheless, this does not mean to suggest that any consideration of planning a balance-of-payments is therefore worthless and that attention should be immediately diverted to the major question. A planning system cannot be constructed from the top; it must be the result of a co-ordination of its various parts, and before the whole can be adequately considered in more than a general sense, its various components must be moulded. Planning a Canadian balance-of-payments is dealt with in the final chapter. This thesis, however, is mainly concerned with the problems facing a planning authority in this sphere, and their implications. Most of these are just as relevant to a concept of national policy or to our present-day economy, though perhaps less manageable.

CHAPTER II

The Nature of the Canadian Economy.

The Canadian economy, like Pepy's crucifix presents a picture "mighty fine, but no so fine as I expected". The same finger that points with pride, reveals the weaknesses. Canada's advantages and resources must be considered hand in hand with her limiting factors. The Canadian geographical location makes her a natural economic adjunct of the United States. The fear of political dominance resulting from an economic alliance with the United States, purportedly led to the adoption of a 'national policy', which has raised artificial barriers to the natural flow of economic intercourse in a north-south direction. Whether political freedom and national integrity is worth the cost is not in question,- the price has already been paid. Canadian economic development has been guided on an east-west basis, centred chiefly along a narrow strip across the continent near the United States border. In the middle stretches 'the bridge', eight hundred miles of empty and barren territory, creating a tremendous transportation obstacle which must be hurdled at great cost. Geographical barriers also stand in the way of economic intercourse between the central part of Canada, and the east and west, the Maritimes and British Columbia respectively. Nevertheless, by patient fostering and a strong tariff policy, the economic development of Canada has proceeded in east-west direction as far as it could be pushed.

Within a vast land area of 3,466,556 square miles, much of which is unsuitable for development, is scattered a population of about ten million. The greatest concentration of population is in the central eastern provinces of Ontario and Quebec,- centering about the St. Lawrence basin and the Niagara peninsula. This is the chief urban and industrial area of Canada, although mixed farming, dairy farming and fruit growing also come to the front. On the east are the Maritime provinces,- dairying, mixed farming, fishing and coal mining are the chief industries. To the north are the mining areas. Westward lie the prairie provinces,- the great agricultural areas, the grain producers. Still further west, over the Rockies and bordering on the Pacific is British Columbia, rich in agricultural and mineral resources, timber and fisheries.

The Canadian climate links with geographical location and natural resources, as the chief conditioning factors on the economic scene. It is responsible for the quality of Canadian hard wheat, and perhaps, national physical and mental vigor. Nonetheless, by and large, it is a serious liability. It is primarily responsible for the seasonality of Canadian production, contributing to that essential phenomenon of Canadian industry, periodic peak loak, with its resultant burden of overhead costs and unused capacity during periods of the year. "In addition, it inflicts on us a short growing season, a restricted range of agricultural products; heavy expenditures for warm clothing, domestic fuel and railway fuel, for clearing railways, highways and mine ventilators of snow and ice; serious obstacles to the movement of labor from one part of the country to another; formidable difficulties in the construction industries. It is responsible for the lack of raw cotton, raw silk, raw rubber, raw sugar and other tropical products, which notably increases our dependence on foreign trade and our vulnerability to economic disturbances beyond our borders."[1]

The principal contributing factor to the Canadian economy is Canada's natural resources, chiefly farms, forests, minerals, fisheries and water power. Here too, whilst some things are present in abundance, the lack of others is a severe handicap. Despite, vast mineral resources, the absence of suitably located and exploitable coal and iron deposits makes a high degree of industrialization virtually impossible. The lack of petroleum is also an important drawback. In a way, Canada's limitation of iron and coal and of her seasonal navigation have tended to emphasize her concentration on raw materials and primary products, for example, wheat, lumber, pulp and paper, mining and fish.

Agriculture is undoubtedly the basic Canadian industry. This at once brings to mind the vast wheat and grain lands of the west. Mixed farming and dairying predominates in the east and the Niagara peninsula is an exceedingly rich and important fruit growing area. Canadian forests are important chiefly as a source of supply for Canada's second greatest industry, the pulp and paper products industry. These resources, although they show serious tendencies to depletion in the east, stretch clear across Canada. British Columbia is an important supplier of hard woods, and wood for construction purposes. Canada's fisheries on the east and west coasts are vast and lucrative. The net value of mineral production comes next to agriculture in the primary

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[1] L.S.R. "Social Planning for Canada".. pg. 51.

products group. Canada produces large amounts of gold, copper, zinc, nickel, asbestos, etc. Another of Canada's great natural advantages, and one which will in all probability bulk large in the future, is the abundance of sources of water power.

Canadian economic activity is directed mainly to the primary industries and to manufactures directly based on them. But this does not mean that practically all the Canadian population is directly engaged in primary production and extractive industries. The distribution of the gainfully employed Canadian population in the last census 1931, was as follows.[1]

Industry	Number (both sexes)	Percent of total
Agriculture	1,128,154	28.7
Service	767,562	19.5
Manufacturing	650,218	16.6
Trade	387,434	9.9
Transport and communication	306,267	7.8
Construction	256,308	6.5
Forestry, fishing, trapping	97,734	2.5
Finance, insurance	92,340	2.4
Mining, quarrying, etc.	71,963	1.8
Unspecified	169,250	4.3
All industries	3,927,230	100.0

Agriculture is the outstanding Canadian industry. Service, and manufacturing follow it in numbers employed. According to the above, 33% of the total gainfully employed population is directly engaged in the primary industries. However, this table includes persons engaged in services, transportation, trade, etc., which are dependent on the basic primary and secondary form-utility producing industries. Considering the net value of primary

[1]Canada Year Book 1937, pg. 145.

production in 1934, we find that it amounted to 53.5% of the net value of total production, despite the relatively low price of primary products. (This includes agriculture, forestry, fisheries, trapping, mining, electric power). The net value of manufacturing production was 39.2% of the total, a not insignificant amount.[1]

Canadian manufacturing industries may be divided into three groups: (a) Those due to geographical location,- e.g. central electric stations, bakeries, sawmills, etc.

(b) Those handling the products of the primary extractive industries in their first stages. These are mostly indigenous to the country and do not place much reliance on tariff protection, although they have practically all been assisted by some sort of protective measures at some time or other, e.g. non-ferrous metal smelting and refining, pulp and paper, slaughtering and meat packing, brewing, fish-canning, etc.

(c) Those existing chiefly through tariff protection, e.g. textiles, automobiles, etc.

The first two categories contribute about half of the total manufacturing production. Accordingly, the claim that the Canadian economy is basically dependent on primary and allied production is valid. Despite the fact that all Canadians are by no means directly engaged in the primary industries, their influence on the Canadian economy should not be underestimated.

As a result of a vigorous tariff policy, a large manufacturing community has grown up. The textiles, the iron and steel, the automotive and numerous other manufacturing industries have been established and maintained by continued tariff fostering. (Many

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[1] Canada Year Book 1937, page 214.

of these industries are not indigenous and must import their raw materials, e.g. textiles, sugar-refining, rubber manufacturing, etc.). The growth of this manufacturing community has given rise to a wide split in sectional economic interests, between the primarily agricultural west and Maritimes, and the comparatively industrialized eastern provinces of Ontario and Quebec. "It is the tendency of the tariff to increase the money incomes of all protected industries. By their potential ability to raise prices by the extent of the duty on imports, the protected industries are given command over a larger part of the community's income than they would enjoy without such protection. It is equally the tendency of the tariff to raise the internal prices of protected goods and therefore lower the purchasing power of all incomes. Owing to the concentration of protected manufactures in Ontario and Quebec, these two provinces profit most by the increase in money incomes, and are the only ones where the increase in money incomes is greater than the added charges imposed on all incomes by the effect of the tariff in enhancing the prices of protected goods. In the remaining seven provinces, money incomes are increased by the tariff insofar as these provinces possess protected industries. But in these provinces, the increase in money incomes due to the tariff is more than offset by the charges on all incomes due to the enhancement of the internal price of protected goods."[1] The ultimate burden must be borne largely by the export industries as they are unable to pass it on by higher prices. This fundamental difference between the industrial east, and the agricultural and exporting interests comes out time and again in such questions as depreciation of exchange. The exporting sections of the community favor such

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[1]Norman Rogers, " A Submission on Dom. Prov. Relations" to the Royal Commission Economic Enquiry on N.S. pg. 100. ~~XXXXXXXXX~~

a course, as it will enable increased exports and enhance their money income compared to that of the rest of Canada, giving them a larger share of the nation's income. The industrial east, faced by the necessity of making large interest payments in foreign funds, has steadfastly opposed such a policy.

Exports play a familiar role in the Canadian economy. Approximately 33% of total Canadian production is exported.[1] Wheat, pulp and paper products and minerals form the bulk of the Canadian export trade. Canadian economic prosperity is therefore closely linked with the export trade. This question will be considered in greater detail in the following chapter. Another dominating factor is the large amount of foreign capital invested in Canada. This creates heavy annual charges on the Canadian economy for interest and dividend payments abroad, contributing further to the rigidities of Canadian industrial production. The weight of this charge is not as apparent in good times when industry is operating near capacity, but in periods of depression, it imposes an almost intolerable financial strain.

The Canadian geography requires an extensive and, in many cases, unproductive transport system. The seasonality of movement, the short crop-moving period, and the lack of return haul are characteristic of the Canadian transportation system. The transport network required to cover an area as huge as Canada is out of place when the volume of traffic and the population served is considered. The chief Canadian industries have come to depend on a high degree of mechanization linked with large scale production

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[1] See table 9.

necessitating large outlays for capital and a heavy capitalization (in some cases, top-heavy and speculative overcapitalization). This is true of the wheat industry as well as the pulp and paper industry. The principal drawback in the mass production of primary products is the uncertain market for such produce, especially in the international field. In this manner, further elements of rigidity and financial load are introduced.

The nature of the Canadian economy essentially resolves itself in terms of rigidities and fluctuation of income. Nor is this a regional characteristic. The Canadian national income is exceedingly vulnerable to fluctuation , it may depend on natural causes, crops, rainfall, or on international economic circumstances. Against this Canada is subject to highly rigid costs of production and overhead charges. "Canada is particularly concerned with the economics of supply. The importance of a relatively small group of raw materials and in particular of wheat in the Canadian income is accentuated by the dependence of these raw materials on enormous investments of capital, which imply problems of overhead costs and fixed charges. The pressure of overhead costs involved in transcontinental railway lines and capital equipment essential to the handling of wheat is evident in immigration policies, construction of branch lines as feeders and intense competition between the railways...... The economics of overhead costs introduce a serious disturbing factor in the automatic adjustments incidental to changes in price. The results are evident in a sharp decline in prices during a period of depression, in the accumulation of debts....."[2]

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[1]See the following chapter.

[2]Innis & Plumptre, "The Canadian Economy and Its Problems". pgs. 18-19.

The rigidities in the Canadian economy may be outlined as follows. First, the rigidity of Canada's resources, they may be vast but they are not flexible. For example, the large areas in the west where wheat must be grown or nothing, or the otherwise barren mining districts. Again, as a result of Canadian tariff policy, the prices of manufactured goods have a rigidity that is in sharp contrast to the fluctuations in the prices of raw materials. Geographical obstacles, barriers of race and language and other common psychological restrictions of movement make Canadian labor particularly immobile. The large-scale and highly mechanized form of production makes for a similar immobility of capital. "A country of great length and little depth, a climate that builds up enormous peak-load costs in a few weeks, or at the most in a few months of the year, demand a quantity and quality of permanent capital works in railways, shipping, canals, harbours and terminals, that are in full use for only a small part of the year. These things are reflected both in the public debt and in the expensive transportation system."[1] Other rigidities which are not peculiar to or necessarily due to the Canadian economic structure, rather to its operation, are the inflexibility of the internal organization of most large Canadian companies; overcapitalization, (especially in pulp and paper); rigid rail rates; price-fixing agreements entered into from time to time by many manufacturers; rigid cost of government, and so on. The nature of the Canadian economy is admirably summed up in the following quotation from K.W. Taylor. "An income that fluctuates violently with the volume and value of our exports, and expenses that are made rigid by the

[1] K.W. Taylor, "The Canadian Economy and its Problems" (Innis & Plumptre, Eds.). Chapter VI, page 183.

dominating factors of overhead costs; the wide difference in the technological problems of the several major industries; the concentration of staple industries in specialized areas and the growing political and cultural domination of the metropolitan centres which accentuate political and economic sectionalism; and at the same time a high degree of concentration of the control of finance, commerce, and manufacturing on a national scale, a concentration to which it is difficult to apply social regulation and control within the present framework of the B.N.A. Act."[1]

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[1]K.W. Taylor, "Economic Implications of the Report of the Royal Commission on Price Spreads." (Canadian Journal of Economics and Political Science, August 1935).

CHAPTER III

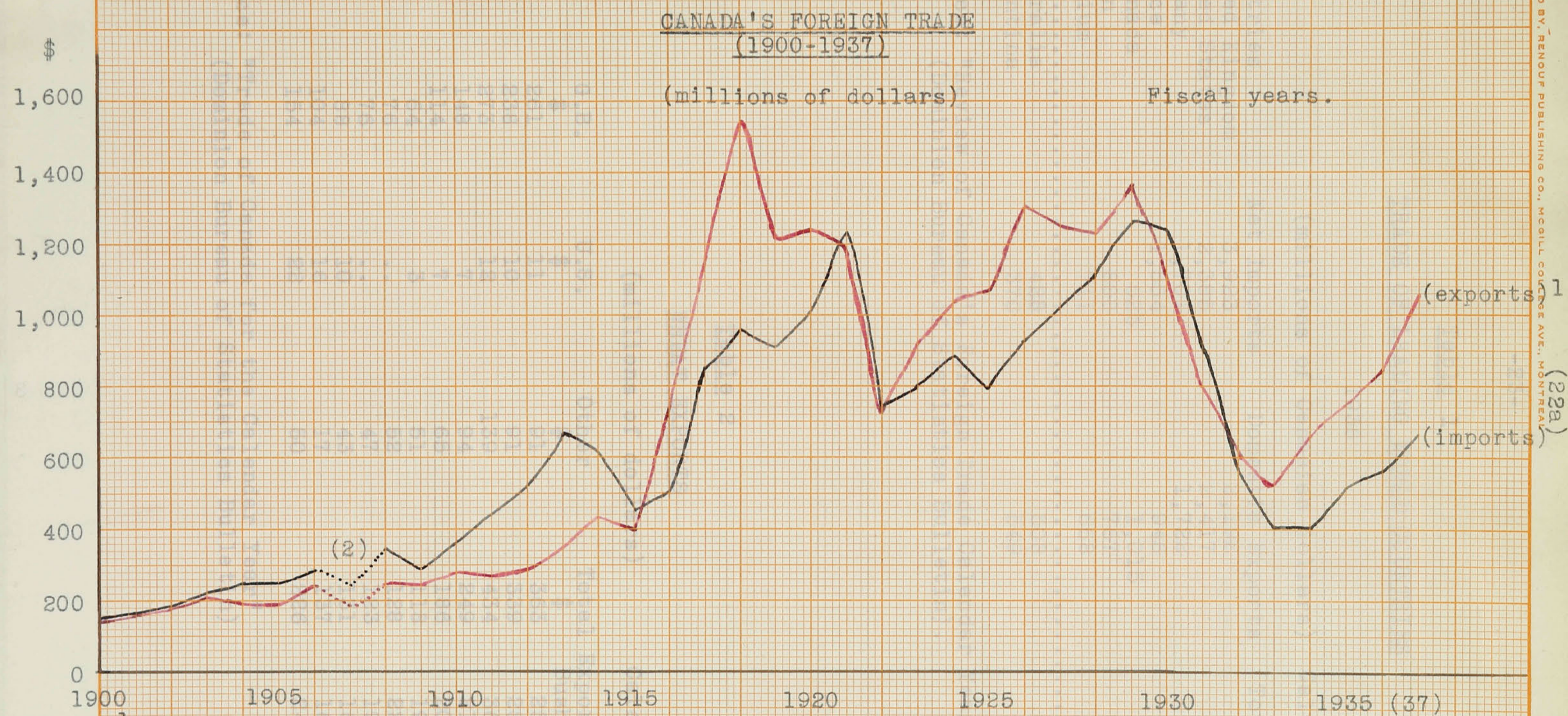
Canada's Foreign Commodity Trade.

The remarkable size of Canada's foreign commodity trade is amongst the commonplaces of domestic economic discussion. In the calendar year 1936, Canada ranked fifth among the nations of the world in total trade; eighth in imports, and fourth in exports (preceded only by Great Britain, United States and Germany). In per capita figures, her foreign trade is exceeded only by that of two other world countries. Canadian foreign trade also looms large on her economic horizon. Estimates, varying slightly for different years, show that approximately 30% of total home production is exported. Canadian imports, consisting largely of 'must items' for home industries, and commodities whose production climatic conditions prohibit, keep pace with exports.

At Confederation, Canadian foreign trade was relatively negligible, total exports of Canadian produce being valued at fifty million dollars, and imports somewhat higher. This tendency was continued in a slow gradual growth in the years up to 1900. Following the turn of the century, during the pre-war period of expansion, foreign trade takes a distinct upward move, reaching a peak during the war years,- levels about which it has been hovering ever since. During this period, its most significant characteristic, large and rapid fluctuations, appears.

Whereas in the nineteenth century Canadian exports consisted largely of saw-mill and timber products, cheese, fish, barley and furs, after 1900 they are based primarily on the products of the

Chart I



[1]net exports; exports of Canadian produce.
(2) includes only nine months for 1907.

Source: Canada Year Books.

Table 1

TRADE OF LEADING WORLD COUNTRIES

1936

(millions of Canadian dollars) Calendar year

Countries	Net Imports	Domestic Exports	Total Trade
United Kingdom	3,923	2,192	6,115
United States	2,385	2,417	4,802
Germany	1,701	1,722	3,423
France	1,554	946	2,500
Canada	623	1,015	1,638
Japan	800	767	1,567
Belgium	711	668	1,379
....			
Australia	428	508	936
Argentina	370	549	919

Source: "Review of Canada's Foreign Trade Calendar Year 1936".
(Dominion Bureau of Statistics Bulletin).

Table 2

WHEAT EXPORTS

(millions of dollars) Calendar years

Year	G.B. $	U.S. $	Other $	Total $	Exports Bushels
1926	261	11	91	363	250
1927	238	10	91	339	255
1928	273	12	139	434	365
1929	148	7	94	249	210
1930	114	7	65	186	207
1931	64	3	51	118	194
1932	76	..	52	128	228
1933	76	..	47	123	192
1934	88	10	43	131	167
1935	104	16	17	137	165
1936	154	22	50	226	243

Source: "Trade of Canada for the Calendar Year"
(Dominion Bureau of Statistics Bulletin)

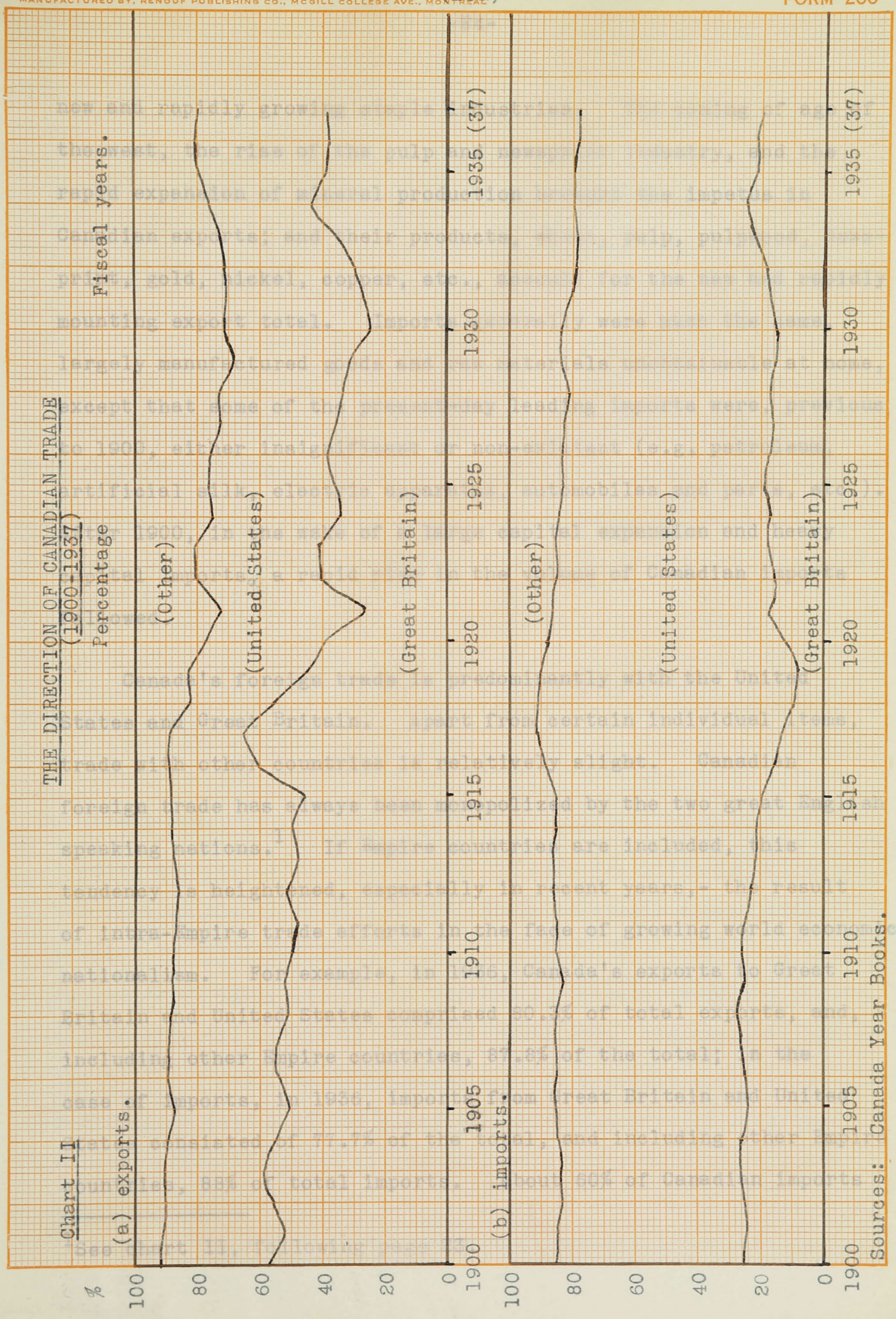


Chart II
THE DIRECTION OF CANADIAN TRADE
(1900-1937)
Percentage
Fiscal years.
(a) exports.
(b) imports.
(Other)
(United States)
(Great Britain)
(Other)
(United States)
(Great Britain)
%
100
80
60
40
20
0
100
80
60
40
20
0
1900
1905
1910
1915
1920
1925
1930
1935 (37)
1900
1905
1910
1915
1920
1925
1930
1935 (37)
Sources: Canada Year Books.

new and rapidly growing staple industries. The coming of age of the west, the rise of the pulp and newsprint industry, and the rapid expansion of mineral production brought the impetus in Canadian exports; and their products, wheat, pulp, pulpwood, newsprint, gold, nickel, copper, etc., account for the new and rapidly mounting export total. Imports generally were much the same, largely manufactured goods and raw materials unobtainable at home, except that some of the present-day leading imports were, previous to 1900, either insignificant or non-existent (e.g. petroleum, artificial silk, electric apparatus, automobiles and parts, etc.). After 1900, in the wake of a large capital expansion and heavy capital imports, a rapid rise in the volume of Canadian imports followed.

Canada's foreign trade is predominantly with the United States and Great Britain. Apart from certain individual items, trade with other countries is relatively slight. Canadian foreign trade has always been monopolized by the two great English speaking nations.[1] If Empire countries are included, this tendency is heightened, especially in recent years,- the result of intra-Empire trade efforts in the face of growing world economic nationalism. For example, in 1936, Canada's exports to Great Britain and United States comprised 80.3% of total exports, and, including other Empire countries, 87.8% of the total; in the case of imports, in 1936, imports from Great Britain and United States consisted of 77.7% of the total, and including other Empire countries, 88% of total imports. About 60% of Canadian imports

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[1]See chart II, following page 23.

come from the United States, although this proportion has been decreasing in recent years, and about 20% from Great Britain. Exports are fairly evenly divided, each taking some 30-40%. Accordingly, a discussion of Canada's foreign trade becomes virtually a discussion of Canada's trade with Great Britain and the United States.

The next few pages present a tabular description of Canada's foreign commodity trade. The facts and figures can thus be presented in a complete and understandable form, avoiding the difficulties and confusion involved in presenting what is primarily statistical material in written form. This group of tables is divided into four sections.

(a) Canada's exports.

(b) The direction of Canadian exports.

(c) Canada's imports.

(d) The source of Canadian imports.

The first group deals with actual commodity exports.[1] The leading exports over a period 1890 to date are given in table (a). The rise of wheat, newsprint and metals as export commodities, previously described, is illustrated here. The continuing predominance of agricultural and vegetable products, wood and paper and non-ferrous metals is shown in table (b). In the last table, the state of manufacture of exports gives a result apparently contrary to what might be expected, showing a more or less even balance between exports of raw materials and manufactured goods. However, a greater weight must be given to exports of raw material inasmuch as these percentages have been calculated on a value basis,

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[1]Table 3.

Table 3

CHIEF COMMODITY EXPORTS

(a) Leading Commodities (millions of dollars) Fiscal years

Rank	1890		1900		1910	
1	Planks & Boards	17	Planks & Boards	22	Wheat	53
2	Cheese	9	Cheese	20	Planks & Boards	33
3	Fish	8	Meats	14	Cheese	21
4	Cattle	7	Gold	13	Fish	15
5	Barley	5	Wheat	12	Silver Ore	15
6	Timber, square	4	Fish	11	Wheat Flour	15
7	Coal	2	Cattle	9	Cattle	11
8	Furs, raw	2	Butter	5	Meats	8
9	Fruits	1	Coal	5	Pulpwood	6
10	Hay	1	Fruits	4	Copper Ore	6

Rank	1920		1930		1936	
1	Wheat	185	Wheat	215	Wheat	148
2	Meats	96	Newsprint	145	Newsprint	91
3	Wheat Flour	94	Planks & Boards	49	Gold	83
4	Planks & Boards	75	Wheat Flour	45	Nickel	41
5	Newsprint	53	Wood Pulp	45	Wood Pulp	28
6	Cattle	46	Copper Ore	37	Planks & Boards	27
7	Wood Pulp	41	Automobiles	35	Fish	24
8	Fish	40	Fish	35	Meats	24
9	Cheese	36	Gold	35	Automobiles	23
10	Furs, raw	21	Whiskey	25	Copper in Forms	23

(b) Summary Commodity Classifications (mill. of dols.) Cal. years

Classification	1919	1926	1929	1932	1936
Vegetable products	399	589	430	204	347
Animal products	324	168	141	56	125
Textiles	29	7	9	5	12
Wood & paper	193	286	293	134	210
Iron & products	90	76	90	60	52
Non-ferrous metals	57	82	148	48	140
Non-metallic minerals	30	27	30	10	24
Chemical & allied products	29	16	22	11	18
Miscellaneous	90	17	20	10	15
Total	1,295	1,284	1,208	502	943

Note: These figures do not include non-monetary gold bullion.

(c) Classification by State of Manufacture Fiscal years

		Percentage	
Year	Raw Materials	Partly Manufactured	Fully Manufactured
1900	41.5	17.7	40.8
1926	47.1	14.3	38.6
1929	48.5	14.3	37.8
1932	39.2	15.0	45.8
1936	31.1	30.7	38.2

Sources: Tables (a) and (c) Canada Year Books.
Table (b) Recent Economic Tendencies (Dominion Bureau of Statistics Bulletin).

Table 4

THE DIRECTION OF CANADIAN EXPORTS

a) The Markets for Leading Commodities. (millions of dollars) Calendar years

Year	Wheat Flour			Fish			Bacon and Hams			Lumber		
	G.B.	U.S.	Other	G.B.	U.S.	Other	G.B.	U.S.	Other	G.B.	U.S.	Other
1926	24.3	0.1	47.6	5.5	14.8	15.7	22.0	0.6	0.2	6.7	50.2	5.0
1929	13.8	...	38.9	3.7	15.4	16.9	5.8	0.9	0.2	5.8	38.8	4.7
1932	7.7	...	9.5	4.2	8.5	5.8	3.0	0.4	0.4	3.5	6.6	2.5
1935	9.3	0.6	9.1	6.4	10.0	7.6	19.7	0.1	0.1	13.6	8.2	4.2
1936	9.9	0.4	10.3	5.3	12.2	6.6	25.1	0.6	0.2	19.0	12.8	5.1

	Newsprint			Copper			Nickel			Auto Parts		
-	G.B.	U.S.	Other	G.B.	U.S.	Other	G.B.	U.S.	Other	G.B.	U.S.	Other
1926	1.0	106.8	6.3	1.3	13.2	0.5	4.2	6.2	2.1	3.3	0.5	34.4
1929	9.8	129.0	10.1	0.9	33.0	3.5	2.8	17.3	5.4	4.4	0.2	42.4
1932	3.6	72.0	7.3	5.7	8.0	2.5	1.3	3.9	2.1	1.1	0.1	5.8
1935	3.5	71.0	13.5	14.9	7.0	7.8	12.6	16.1	7.6	3.6	0.1	22.2
1936	2.9	83.5	17.2	23.2	2.2	11.1	14.1	22.6	7.9	2.3	0.2	20.6

Note: Wheat exports are given in table.

b) Summary Commodity Classification (millions of dollars) Fiscal Year

1936

	Great Britain		United States		All Countries	
	$	%	$	%	$	%
Vegetable products	154.0	48.0	44.6	12.4	242.8	28.6
Animal products	54.0	17.0	34.0	9.5	100.9	11.9
Textiles	2.3	0.7	2.0	0.7	10.2	1.0
Wood & paper	28.0	8.9	125.2	34.7	181.8	21.4
Iron & products	11.6	3.5	5.4	1.5	32.3	6.2
Non-ferrous metals	61.8	19.2	121.7	33.8	212.5	25.0
Non-metallic minerals	2.2	0.7	11.5	3.2	19.0	2.3
Chemical & allied products	3.2	1.0	7.4	2.1	16.0	1.9
Miscellaneous	3.1	1.0	7.5	2.1	3.0	1.5
Total	321.5	100.0	360.3	100.0	849.0	100.0

Sources: (a) Bank of Canada Statistical Summary (b) Canada Year Book 1937.

Table 5

CHIEF COMMODITY IMPORTS

(a) Leading Commodities (millions of dollars) Fiscal years

Rank	1890		1900		1910	
1	Woolen goods	11	Roll. mill prod.	12	Coal	28
2	Coal	8	Coal	11	Woolen goods	21
3	Sugar & prod.	7	Woolen goods	9	Cotton goods	18
4	Roll. mill prod.	6	Grain & prod.	8	Roll. mill prod.	16
5	Cotton goods	4	Sugar & prod.	8	Sugar & prod.	15
6	Raw cotton	4	Cotton goods	6	Machinery[1]	15
7	Tea	3	Machinery[1]	5	Settlers Effects	10
8	Grain & prod.	3	Raw cotton	4	Raw cotton	9
9	Silk goods	3	Hides & skins	4	Wood unmanfctr'd	8
10	Fruits	2	Silk goods	4	Fruits	8

Rank	1920		1930		1936	
1	Sugar & prod.	73	Machinery[1]	70	Petroleum	35
2	Coal	60	Roll. mill prod.	62	Coal	33
3	Cotton goods	51	Coal	56	Roll. mill prod.	24
4	Woolen goods	45	Petroleum	51	Auto parts	22
5	Roll. mill prod.	40	Alcohol	45	Machinery[1]	22
6	Machinery[1]	37	Auto parts	35	Fruits	20
7	Raw cotton	34	Automobiles	34	Sugar & prod.	19
8	Fruits	33	Fruits	34	Raw cotton	17
9	Silk goods	31	Woolen goods	32	Cotton goods	13
10	Hides & skins	23	Farm tools	30	Vegetable oils	12

[1] Does not include farm tools.

(b) Summary Commodity Classification (mill. of dols.) Cal. years

Classification	1919	1926	1929	1932	1936
Vegetable products	201	210	233	97	126
Animal products	77	53	70	17	26
Textiles	184	184	199	68	99
Wood & paper	39	46	63	22	27
Iron & products	182	219	336	67	135
Non-ferrous metals	45	50	97	22	35
Non-metallic minerals	117	152	185	95	115
Chemical & allied products	27	31	40	28	31
Miscellaneous	64	59	75	33	39
Total	941	1,008	1,299	452	635

Note: These figures do not include non-monetary gold bullion.

(c) Classification by State of Manufacture Fiscal years

	Percentage		
Year	Raw Materials	Partly Manufactured	Fully Manufactured
1900	24.9	10.6	64.5
1926	27.6	10.0	62.4
1929	23.0	8.0	69.0
1932	25.2	8.4	66.4
1936	29.4	10.8	59.8

Sources: Tables (a) and (c) Canada Year Books
Table (b) Recent Economic Tendencies (Dominion Bureau of Statistics Bulletin)

Table 6

THE SOURCE OF CANADIAN IMPORTS

a) The Sources of Leading Commodities: (millions of dollars) Calendar years

Year	Fruits & Vegetables			Petroleum & Products			Anthracite Coal			Rubber & Products		
	G.B.	U.S.	Other	G.B.	U.S.	Other	G.B.	U.S.	Other	G.B.	U.S.	Other
1926	1.1	32.8	7.0	0.1	45.5	6.9	2.7	30.6	0.9	0.8	26.3	2.9
1929	1.3	38.1	10.6	0.3	65.1	12.5	4.5	23.6	0.7	0.6	21.1	1.0
1932	0.8	16.1	9.9	0.1	33.1	10.3	6.9	12.2	0.2	0.5	3.3	0.2
1935	0.6	15.6	11.9	0.1	34.7	9.4	6.6	9.8	1.0	0.7	4.1	4.7
1936	0.5	19.5	12.8	0.1	39.3	10.4	6.3	10.0	1.6	0.6	3.6	8.0

	Cotton Products			Wool Products			Roll. Mill Prod.			Mach. & Vehicles		
	G.B.	U.S.	Other	G.B.	U.S.	Other	G.B.	U.S.	Other	G.B.	U.S.	Other
1926	15.4	14.3	3.2	32.3	1.5	5.4	5.2	39.8	2.7	5.5	117.8	1.3
1929	12.6	17.7	3.5	31.1	2.0	7.3	8.2	52.7	3.8	6.8	199.1	2.5
1932	6.3	4.7	2.2	9.2	0.3	1.6	6.6	6.6	0.9	2.9	34.3	0.9
1935	10.9	2.9	2.0	12.6	0.3	0.7	12.1	11.5	0.9	4.0	57.0	1.3
1936	11.0	3.8	2.1	14.6	0.3	0.9	11.9	14.7	1.3	4.9	73.9	1.4

b) Summary Commodity Classification (millions of dollars) Fiscal year

1936

	Great Britain		United States		All Countries	
	$	%	$	%	$	%
Vegetable products	18.0	15.3	30.9	9.7	110.3	19.6
Animal products	3.7	3.2	10.9	3.4	24.3	4.3
Textiles	40.5	34.4	32.0	10.0	89.8	16.0
Wood & paper	3.5	3.0	17.8	5.6	23.2	4.1
Iron & products	20.5	17.4	88.4	27.7	114.2	20.3
Non-ferrous metals	5.8	4.9	23.3	7.3	33.6	6.0
Non-metallic minerals	12.9	11.0	78.0	24.4	105.4	18.8
Chemical & allied products	6.3	5.4	17.5	5.5	29.9	5.3
Miscellaneous	6.3	5.4	20.2	6.4	31.6	5.6
Total	117.8	100.0	379.4	100.0	562.0	100.0

Sources: (a) Bank of Canada Statistical Summary. (b) Canada Year Book 1937.

Table 7

PRINCIPAL COMMODITIES IN THE CANADIAN FOREIGN TRADE
WITH GREAT BRITAIN AND UNITED STATES

(millions of dollars) Calendar years

a) Leading Imports From Great Britain and United States.

Commodities	Imports from U.K. 1935	1936	Total/36
Plates & iron sheets	11	11	28'
Coal	8	7	35
Worsted tops	4	5	22"
Worsteds & Serges	4	4	..
Flax, hemp & jute	4	4	9
Vegetable oils	4	4	11
Cotton fabrics	3	3	17
Whiskey	5	3	8"'
Tea	3	3	9
China	2	3	..

Commodities	Imports from U.S. 1935	1936	Total/36
Petroleum	27	31	40
Coal	25	26	34
Machinery, ex. farm	17	25	29
Auto parts	24	24	24
Raw cotton	15	18	19
Fruits	19	14	24
Roll. mill prod.	12	15	27
Electric apparatus	7	9	11
Books & printed matter	7	9	12
Farm tools	5	9	10

' Roll. mill prod.; " Woolen goods; "' Alcoholic beverages.

b) Leading Exports to Great Britain and United States.

Commodities	Exports to U.K. 1935	1936	Total/36
Wheat	104	155	227
Bacons & hams	20	25	32'
Copper & prod.	15	23	32
Planks & boards	13	19	37
Nickel & mfgs.	13	14	44
Wheat flour	9	10	20
Cheese	6	9	11
Aluminum & prod.	6	8	11
Zinc & prod.	6	7	9
Lead & prod.	4	6	10

Commodities	Exports to U.S. 1935	1936	Total/36
Newsprint paper	71	84	103
Wood pulp	22	26	31
Whiskey	12	22	22
Planks & boards	8	12	37
Pulpwood	7	8	8
Cattle	5	8	13
Asbestos	5	6	10
Abrasives	3	4	..
Crude nickel	1	2	44
Mink skins	1	2	..

' Meats.

Source: Tables (a) and (b) "Review of Canada's Foreign Trade Calendar Year 1936" (Dominion Bureau of Statistics Bulletin) and therefore have been affected of recent years by the relative weakness of raw material prices. Again, many of the items included as manufactured, or semi-manufactured goods consist of processed raw materials, e.g. wheat flour, newsprint, thus swelling the total of raw material values produced for export.

The direction of Canada's export trade is shown in the second group.[1] The most important Canadian exports to the United States and Great Britain and their relation to total exports are given in table 7 (b). The main point of interest here is the manner in which Canadian exports seem to divide, wheat, meats, and certain metals to Great Britain and newsprint, wood products and whiskey to the United States. This tendency is further illustrated in table 4 (b), agricultural and animal products forming the larger part of exports to the United Kingdom; whilst wood products and non-ferrous metals make up by far the larger part of exports to the United States. A summary for a number of years of certain leading Canadian exports to the United States, Great Britain and other countries is contained in table 4 (a), again showing the features mentioned generally above.

Canadian commodity imports are the subject of the third group.[2] Leading imports in ten year periods, 1890 to date are given in table (a). The predominance of agricultural products (items difficult, if not impossible to product locally, e.g. citrus fruits, sugar, coffee), iron and products (machinery, etc.), and non-metallic minerals (chiefly petroleum and coal), is shown in the second table on this page. According to table (c)

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[1]Table 4 and table 7 (b)

[2]Table 5.

by far the greater part of Canadian imports consist of manufactured goods, although imports of raw materials are by no means negligible,- some 30% of the total in 1936.

The last group of tables deal with the sources of Canadian imports.[1] Table 7 (a) gives leading imports from Great Britain and the United States, and the sources of certain leading imports are given in table 6 (a). Imports from the United Kingdom are chiefly iron and steel, woolen and cotton products and coal; from the United States, petroleum, coal, machinery, vehicles and rolling-mill products. This tendency is further illustrated in table 6 (b), imports from the United States being mainly iron and products and non-metallic minerals; and imports from Great Britain, textiles and iron and products.

The bulk of Canadian exports consist of a few raw materials, wheat, pulp and paper products, planks and boards, fish, meat, cattle, copper, nickel and gold. This relatively small group of items comprise over 60% of total exports.[2] This concentration of the export trade in large exports of a few primary products is one of its most significant features. It means that dislocations in a single, or a few items, have very far-reaching consequences. Imports, on the other hand, consist in the main, of two groups: items necessary for home industries, and items which cannot be produced locally at a marketable price... This a natural result

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[1]Table 6 and table 7 (a)

[2]Table 8

Table 8

LEADING STAPLE COMMODITIES IN THE CANADIAN EXPORT TRADE

(millions of dollars) Calendar years

Commodity	1919	1921	1923	1925	1927	1929	1931	1933	1935	1936
Wheat	156	214	258	326	339	249	118	123	137	227
Wheat flour	107	60	62	74	60	52	20	19	19	20
sub total	263	274	320	400	399	301	138	142	156	247
Paper (newsprint)	60	75	93	106	130	154	111	72	88	103
Pulpwood	10	15	13	14	16	13	09	05	07	08
Wood-pulp	37	33	47	47	47	43	30	23	27	31
Planks & boards	61	37	75	65	57	50	20	17	26	37
sub total	431	434	548	632	649	561	308	259	304	426
Fish	45	30	27	36	33	35	25	19	23	24
Meat	108	33	23	37	26	16	04	11	25	32
Cattle	51	10	10	17	14	14	03	03	07	12
sub total	635	507	608	722	722	626	340	292	359	494
Copper	14	07	10	15	15	37	17	16	21	32
Nickel	08	03	09	12	15	25	14	23	36	45
Total	657	517	627	749	752	688	371	331	416	571
Total exports of Canadian produce (1)	1,240	802	1,014	1,270	1,218	1,182	605	531	729	944
Percentage of commodities listed to total exports	53.0	64.4	61.8	59.0	61.7	58.2	61.3	62.3	57.0	60.5

(1) does not include exports of gold bullion.

Sources: 1919-1933 "Recent Economic Tendencies" (Dominion Bureau of Statistics Publication)
1935-1936 "Trade of Canada for the Calendar Year 1936" (Dominion Bureau of Statistics Bulletin)

of Canadian tariff policy. In the first group are chiefly raw materials, e.g. raw rubber, raw silk, sisal fibre, iron ore, coal, (for the year 1936, Dominion Bureau of Statistics figures place the value of some sixty-three leading commodities imported for Canadian Industries at $238 million, or 37.4% of total imports). The second group is composed of primary products, e.g. coal, petroleum, fruits, sugar, oils, coffee, and manufactured products, e.g. textiles, iron products, crockery, etc. This means that in a manner of speaking, there is an irreducible minimum of imports, commodities which, if they are not imported, must either be foregone, or produced at home at great cost. A decline in imports, therefore, assuming no changes take place in the Canadian industrial structure, must mean a fall in the domestic standard of living.

The outstanding feature of Canada's foreign trade is undoubtedly its highly fluctuating character.[1] In five years, 1928 to 1932, Canadian exports dropped 63.5% in value. Imports, taking their peak and low years, 1929 and 1933, dropped some 69.1%. Increases in trade are just as phenomenal; according to the Dominion Bureau of Statistics, exports for the calendar year 1936, have recovered to some 82% of the 1929 peak total. Hitherto, these fluctuations have been beyond domestic control, following the course of world trade, and especially the trend of markets for raw materials. Canadian products are sold in remote markets, at world prices beyond domestic control, in a highly competetive field where cost of production often becomes a secondary

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[1]See chart I, following page 22.

consideration. The export situation is generally exceedingly uncertain, faced as the world is today by continued national self-sufficiency schemes; and especially as Canadians are dealing in raw material commodities, a field in which there has of recent years always been a potential, if not actual overproduction. Canadian imports follow closely on the trend of exports, being limited by the recessionary effects of a drop in exports on the economy, as well as currency stringencies.

The role of exports can perhaps better be examined by considering their relation to Canadian production. The relation of production for export to total Canadian production is given in table 9. (Note that exports are as much a part of Canadian production and income, as products retained at home,- they are merely exchanged for other goods and services which are presumably their equivalent). An adjustment has been made to allow for fluctuations in price level. Both exports and total production have been revalued in terms of a base year, 1926, and their relation to one another calculated on this basis. This adjustment is partially justified by the fact that it smooths out any sudden changes in these proportions due to a relative shift in one group of prices;- a shift which may be temporary, and does not necessarily measure the real factors concerned, e.g. numbers employed, capital invested, volume of production - but indicates rather, the comparative extent of the dislocation involved. The most suitable estimate would probably lie between the two percentages given in the table. (The calculation in table 9 has considered only the production of form utilities. These are

<u>**Table**</u> 9

<u>THE RELATION OF CANADIAN EXPORTS TO TOTAL CANADIAN PRODUCTION</u>

(millions of dollars) Fiscal years

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
Canadian Exports	1,315	1,252	1,228	1,363	1,120	799	576	473	579	659	849
Canadian Production[1]	3,640	3,901	4,122	3,946	3,335	2,572	2,104	1,996	2,380	2,559	2,823
Percentage	36.0	32.0	29.8	33.9	33.4	31.4	27.3	23.7	24.3	25.8	30.0
Adjusted Percentage[2]	36.0	32.0	30.4	35.8	37.5	37.1	33.2	30.6	28.7	29.7	33.6

[1]Value of net form utilities produced.

[2]Adjusted export values $= \dfrac{\text{Exports}}{\text{Export price index (a)}}$

Adjusted value of total production $= \dfrac{\text{Total production}}{\text{Wholesale price index (a)}}$

(a) See table 11 page 39.

Sources: Canada Year Books.
Financial Post Business Year Book.

estimated to be some 5/8 of total production, the remaining 3/8 consisting of service utilities, e.g. transportation, finance, trade, etc. This might otherwise be described as the handling and service of form utilities produced, and it is fair to say that Canadian exports easily absorb their share of this. For example, the Canadian export figures are not C.I.F.,- they are F.O.B. point of shipment and therefore do not include transportation charges. Again, add the traffic of imports, and the potentially longer haul of products to and from the Canadian boundary. Precise statistical information on this subject is difficult to obtain, but there seems to be no reason to suppose that a corresponding percentage of service utility production should not be attributed to the export group). Hence it seems fair to say that Canadian foreign trade bulks large on the Canadian economy, having an incidence of over 30%.

The significance of the above is clearer when it is realized that fluctuations in foreign trade, due to changes in price level and foreign demand, have the power to create conditions of boom and depression in Canadian industry. The effect of a decline in the purchasing power of about one third of the home producers is cumulative through Canadian industry. Add to this the fact that Canada's capital, labor force and resources are particularly non-mobile. This need not necessarily mean an utter dependence on world trade, it means rather that assuming the present industrial set-up, and the present structure of the Canadian economy, foreign trade is of paramount importance,- which should in no way diminish the importance of other factors,- or imply that the situation is unalterable.

The effects of foreign trade fluctuations on the Canadian economy, apart from ordinary dislocations and disturbances, can be stated in terms of fixed charges. The ordinary disturbances are those commonly experienced, symptomatic of boom and depression periods, at first in the export industries, but not without heavy repercussions throughout all Canadian industry. The heavy burden of overhead cost in Canadian industry is due to the large unused capacity. This may be attributed to two main factors; first, the seasonality of Canadian industry; secondly, to fluctuations in foreign trade. The Canadian transportation system has been built to accomodate large movements of commodities for foreign trade, chiefly wheat and newsprint exports. (Even so, there are difficulties of one way, and seasonal haul). The three largest Canadian industries, grain, pulp-newsprint and mining, are primarily export industries. They are highly mechanized, feature large scale production and heavy capitalization, (if not overcapitalization) and operate under a heavy burden of fixed expenses. Fluctuations thus result in heavy costs;- costs which can be measured in human suffering and privation, as well as deterioration and waste.

This burden is further weighted by the fact that the barter terms of trade are relatively unfavorable to Canada. Exports are in the main raw materials whose price fluctuates far more rapidly than that of manufactured goods, whereas much of Canadian imports are in the latter class. The relative fluctuation in value and volume of Canadian imports and exports is shown in table 10. Put simply, a decline in barter terms of trade as illustrated here, means that due to the relative fluctuation in the price levels of

Table 10

INDEX OF VOLUME AND VALUE OF CANADIAN FOREIGN TRADE

(1926 = 100) Calendar years

Year	Index of Imports Volume	Value	Year	Index of Exports Volume	Value
1926	100	100.0	1926	100	100.0
1927	110	107.8	1927	98	96.5
1928	126	121.2	1928	112	107.0
1929	137	128.8	1929	101	94.1
1930	119	100.0	1930	90	70.5
1931	86	62.3	1931	82	48.0
1932	64	44.9	1932	79	39.1
1933	55	72.5	1933	86	42.0
1934	67	50.8	1934	98	51.3
1935	70	54.5	1935	106	56.5
1936	79	63.0	1936	125	73.0

Source: Volume figures "Bank of Canada Statistical Summary"
Value figures "Recent Economic Tendencies"
(Dominion Bureau of Statistics Bulletin)

Table 11

INDEX OF EXPORT, IMPORT AND CANADIAN WHOLESALE PRICES

(1926 = 100)

Year	Export Prices	Import Prices	Wholesale Prices
1926	100.0	100.0	100.0
1927	97.8	97.7	97.7
1928	94.2	96.1	96.4
1929	92.2	94.2	95.6
1930	77.4	83.7	86.6
1931	60.5	72.4	72.1
1932	54.9	70.5	66.7
1933	55.2	73.0	67.1
1934	60.6	76.5	71.6
1935	62.2	77.9	72.1
1936	66.8	79.4	79.6

Source: "Prices and Price Indexes 1913-1936" (Dominion Bureau of Statistics Bulletin) different classes of commodities, Canadians are receiving less in barter terms (actual merchandise), for a given quantity of exports than previously. This magnifies the burden of a trade depression.

A consideration of Canada's foreign trade must undoubtedly go beyond the application of the balance of trade to the balance of payments. The balance of foreign trade is a small proportion of the total volume and its role does not affect the vital issues of Canadian trade directly. The most important question, in reference to policy, is whether the Canadian economy is necessarily an export economy. During the last nine years, Canada has suffered in a world-wide depression, in which those classes of merchandise in which the chief Canadian exports lie, have been hardest hit. This has in all probability been the major cause of economic depression in Canada. Could this have been avoided, or mitigated? Does the Canadian economy, must the Canadian economy function in alignment with the trend of her export trade?

The whole issue can be clearly regarded from this aspect. Exports mean nothing in and of themselves, only in terms of their price in foreign markets, and the corresponding funds obtained by Canadians. Beyond this, there is no vital relationship. Owing to a decline in export prices and narrowing markets, it may be worthwhile to turn to other fields of production in which there may be greater returns. Canada is not irrevocably committed to export production. This takes mobility too much for granted. It also assumes that more satisfactory alternative fields exist. Nevertheless, the point being made is that commitment to a policy of maintaining exports blindly, as a criterion of economic well-being, without any consideration of the returns received, is unsound when considering a long-run policy.

The nature of the Canadian economy is such that certain commodities can be produced easily, economically and in large quantities. The production of these goods far exceeds any domestic demand and this surplus must be exported in exchange for other commodities, which can be produced in Canada at high or prohibitive costs, if at all. To neglect this advantage would be ridiculous. The Canadian economy is naturally fitted to be organized on an export basis, tempered only by a clear consideration of the quantities of Canadian commodities that can be sold abroad. In the light of present day events, the closing doors of world markets demonstrate a need for a revision of Canada's previous export bias.

Present-day world trade conditions must be accepted as normal, and the economists'outlook must be freed of the theoretical idea of a return to free or freer trade, presumably an optimum condition, but hardly one likely to be attained. By freeing the mind of pre-war conceptions of international trade, an approach nearer to reality is achieved. Merchandise moves over national boundaries today with difficulty, and in small quantities, hampered at every turn by high tariff walls, embargos, and currency restrictions. Indeed, many countries resort to semi-barter transactions. Agreements, regulations and controls are the normal things and it is within this framework that a trade policy must work.

The objectives in foreign trade center chiefly about two things:-

(1) greater stability

(2) a volume of trade in harmony with domestic export production.

Two alternative fields of action can be chosen; first, reduction in production of export commodities; secondly, attempts to maintain and increase markets and prices by international agreements, treaties, concessions, etc. Both of these fields will have to be explored and utilized.

Can the bumps be levelled out and can the Canadian foreign trade be regulated so as to give adequate returns to the Canadian export industries? (Failing this, it would presumably be wise to abandon, or diminish production in some of them). Just how far these lines can be followed is doubtful. The question of self-sufficiency is bound to arise. Risking a just accusation of triteness, it might be called out of the question. The only advantage which it could offer would be stability, but a sort of rock-bottom stability, with security to enjoy lower standards of life. Again, this neglects Canada's basic natural resources and her industrial equipment. "The policy of economic nationalism which attempts to create a self-sufficient economy in order to obtain stability and security at the expense of the production of goods has grave consequences for an economy which rides on the crest of modern industrialism, and has been concerned with the demands of the international market."[1]

One of the strongest arguments for the maintenance of export trade is the need of a credit balance to meet Canadian financial

[1] Innis & Plumptre, "<u>The Canadian Economy and Its Problems</u>". pg. 17.

obligations abroad. If gold prices drop from their present high level, the decline in gold bullion exports will undoubtedly enhance this need. Given an opportunity, there is no doubt that Canada can easily meet this debit balance by credits on merchandise account. Inasmuch as in both cases the countries concerned are principally the United States and Great Britain, the problem is simplified. Recognition of the fact that Canadian obligations to both Great Britain and United States can ultimately be paid only by a surplus of Canadian exports to these countries, and co-operation to that effect, bearing in mind the desirability of the maintenance of as high a level of international trade as possible, would go far to solve the difficulty. The attitude of these two nations is a friendly one and there is certainly reason for supposing that if a basic agreement covering these points were suggested, reasonable co-operation would be forthcoming. The chief difficulty is the lop-sided Canadian trade balance, an active balance with Great Britain, and a passive one with United States, but there is no reason why this need prove an impassible stumbling block.[1]

The essential point is the need for the adoption of policy in foreign trade relations. Hitherto trade has been guided by individual initiative, circumstance, patronage, a conglomerate and in many instances, conflicting host of causes. The Canadian tariff is the creature of momentary exigencies and politico-economic pressures. Tariff measures have not been adapted to a systematic and integrated plan of economic development. The

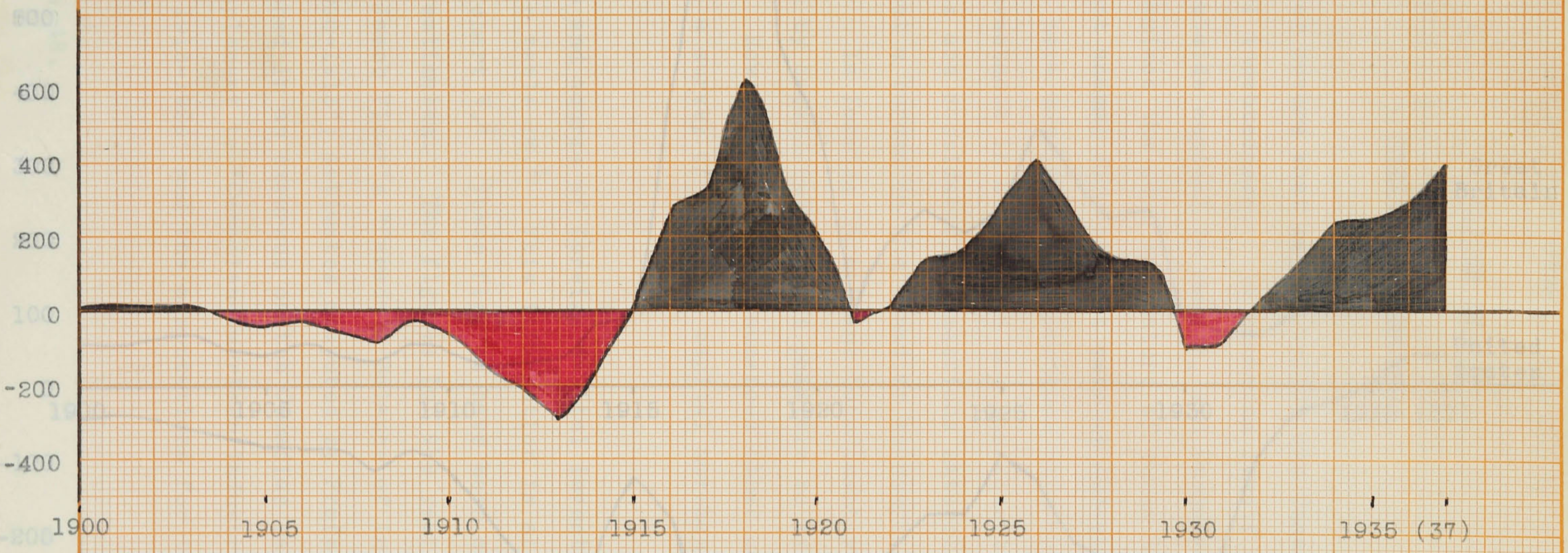
[1]See chart IV following page 44.

requirements, on the one hand, call for a sizing up of the Canadian productive capacity and its distribution, an appraisal of how much Canada can reasonably expect to export on the basis of known markets and prices, and the adjustment of the internal economy to this. On the other hand, the importance of stabilization of Canadian foreign trade and efforts at maintenance and expansion of foreign markets must be considered, and the fact that a credit balance in foreign commodity trade relations is necessary. The key-stone is therefore the adoption of a determined course of action or policy; a policy which concerns not only foreign trade but is in harmony with the other international economic transactions of the balance-of-payments. A schedule of the various factors and the manner in which they should be effected, can be drawn up... in the case of foreign commodity trade, in all probability functioning through the medium of an import and an export board, and trade agreements.

Chart III

THE VISIBLE BALANCE OF COMMODITY TRADE
(1900-1937)

(millions of dollars) Fiscal years.



Note: this balance consists of gross exports (Canadian and foreign produce) less imports.

Source: Canada Year Books.

Chart IV

THE BALANCE OF COMMODITY TRADE WITH GREAT BRITAIN AND THE UNITED STATES

(millions of dollars) Fiscal years.

Source: Canada Year Books.

CHAPTER IV

Capital Movements.

This chapter covers what may be called the Canadian balance of international indebtedness. It concerns itself with the investment of outside capital in Canada, and Canadian capital abroad. It examines the size and nature of these investments, and the resultant annual flow of debt service charges. The issues involved here are of grave importance when the heavy outside capital investment in Canada and the consequent interest and dividend charges are considered. Questions naturally arise. Is this too great a burden on the Canadian economy? Will this trend continue? Is foreign investment beneficently constructive? Is Canada owned by outsiders? Is it possible to exercise control in this field? However, these and numerous other considerations must wait until a survey of Canadian capital movements has been made.

The volume and source of foreign capital invested in Canada is summarized in table 12.[1] This information is also conveyed graphically in chart V.[2] These figures have been compiled from three separate estimates. The figures for the years 1900-1913 are taken from Jacob Viner's "Canada's Balance of International Indebtedness 1900-1913"; estimates computed by Professor Frank Knox and published in an excursus on the Canadian balance-of-payments, a supplement to "Canadian-American Industry" are used for the period 1913-1926; and the computations for the third

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[1] page 46.

[2] following page 48.

Table 12

TOTAL BRITISH AND FOREIGN CAPITAL INVESTED IN CANADA (1900-1936).

(millions of dollars) Calendar years.

Year	Great Britain	United States	Other Foreign	Total
1900	1,050.1	167.9	13.7	1,231.7
1901	1,065.2	186.2	17.5	1,268.9
1902	1,077.1	209.6	24.6	1,311.3
1903	1,105.9	231.7	28.3	1,365.9
1904	1,135.4	257.5	34.9	1,427.8
1905	1,211.8	289.9	38.7	1,540.4
1906	1,280.3	319.4	46.0	1,645.7
1907	1,345.5	345.4	49.8	1,740.7
1908	1,526.9	378.1	57.8	1,962.8
1909	1,739.6	414.3	62.3	2,216.2
1910	1,958.1	486.9	84.4	2,529.4
1911	2,202.5	563.1	112.2	2,877.8
1912	2,417.3	644.8	136.8	3,198.9
1913	2,793.1	779.8	172.7	3,745.6
1913	2,569.3	780.0	180.0	3,529.3
1914	2,778.5	880.7	177.7	3,836.9
1915	2,772.2	1,069.6	175.2	4,017.0
1916	2,840.3	1,306.9	175.5	4,322.7
1917	2,738.7	1,577.3	176.6	4,492.6
1918	2,729.0	1,630.0	176.6	4,535.6
1919	2,645.2	1,818.1	173.5	4,636.8
1920	2,577.3	2,128.2	164.4	4,870.1
1921	2,493.5	2,260.3	152.2	4,906.0
1922	2,463.8	2,593.0	150.2	5,207.0
1923	2,470.7	2,794.4	149.2	5,414.3
1924	2,371.6	3,094.0	150.0	5,615.6
1925	2,345.7	3,219.2	149.2	5,714.1
1926	2,354.7	3,464.5	146.3	5,965.5
1926	2,597.8	3,161.2	131.7	5,890.7
1927	2,628.3	3,423.8	132.2	6,184.3
1928	2,693.6	3,664.6	140.7	6,498.9
1929	2,764.2	3,926.5	145.0	6,835.7
1930	2,766.0	4,298.4	131.5	7,195.9
1931	2,687.1	4,254.5	126.2	7,067.8
1932	2,631.7	4,198.3	124.2	6,954.2
1933	2,674.4	4,115.2	124.3	6,913.9
1934	2,729.5	4,112.1	123.5	6,965.1
1935	2,729.3	4,044.6	123.6	6,897.5
1936	2,725.1	3,984.4	124.2	6,833.7

Sources: 1900-1913 J. Viner "Canada's Balance of International Indebtedness 1900-1913"

1913-1926 F. Knox Supplement to "Canadian-American Industry".

1926-1936 "British and Foreign Capital Invested in Canada" (Dominion Bureau of Statistics Bulletin).

period 1926-1936 are taken from a recent bulletin of the Dominion Bureau of Statistics on British and foreign investments in Canada. For the purposes of comparison, the overlapping years have been given in each case. The above sources for the years given also apply to all other capital investment figures given in this chapter, except where otherwise mentioned.

These figures reveal the significant trends of foreign capital investment in Canada. A few comparisons will serve to give an idea of the size of total foreign investment in Canada. The figures given are for 1936:

Total foreign investment in Canada..................	$6,833,700,000
Canadian national income(1).....	$4,516,000,000
Total capital invested in Canadian industry(2).......	$18,000,000,000
Total federal government revenue(1)................	$ 372,596,000

Previous to 1900 outside investment in Canada maintained a fairly steady pace, being most marked about 1875, the period of the building of the C.P.R., but it never assumed the proportions distinguishing it after the turn of the century. The total outside investment in Canada at the beginning of 1900 is estimated by Viner to have been approximately $1,200,000,000.[3] This figure is obtained by adding $150,000,000 for United States investment in Canada, and $60,000,000[4] for British investments privately made and for investments in Canada by all other countries, to $989,000,000, the total investment of British capital in Canada

(1) Financial Post Business Year Book (1938).

(2) Canada Year Book (1937)

[3] J. Viner, "Canada's Balance of International Indebtedness" pg.99.

[4] $20 million of this is attributed by Viner to outside investments other than by G.B. and U.S., idem pg. 138.

through public flotation of securities.

The growth of outside investment following 1900 literally dwarfs the previous flow. The new century is marked by a rapid and steady increase of outside investments in Canada.[1] It reached a volume of two billion dollars about 1908, and by 1913 had risen to three and a half billion. Within five years, capital imports amounted to far more than the total of the entire period previous to 1900. This meant a vast and concentrated capital expansion, which went hand in hand with the opening up of the west, the heavy immigration and the further building of the Canadian transportation system. The outside capital investment in Canada amounted to four and a half billion dollars in 1918, six billion about 1926, and reached a peak of over seven billion in 1930. Since then there has been a slight decline in outside holdings in Canada, although the total sum still hovers close to seven billion dollars. Total British and foreign investment in Canada, 1936, is estimated by the Dominion Bureau of Statistics to be approximately $6,833,700,000. (Note that the figures given here do not refer to the annual increment of outside investment; they represent total investment).

Foreign investment in Canada is monopolized by Great Britain and the United States to an extent even greater than their share of her foreign trade. Foreign holdings in Canada, other than British and American, are negligible, amounting to 1.8% in 1936.

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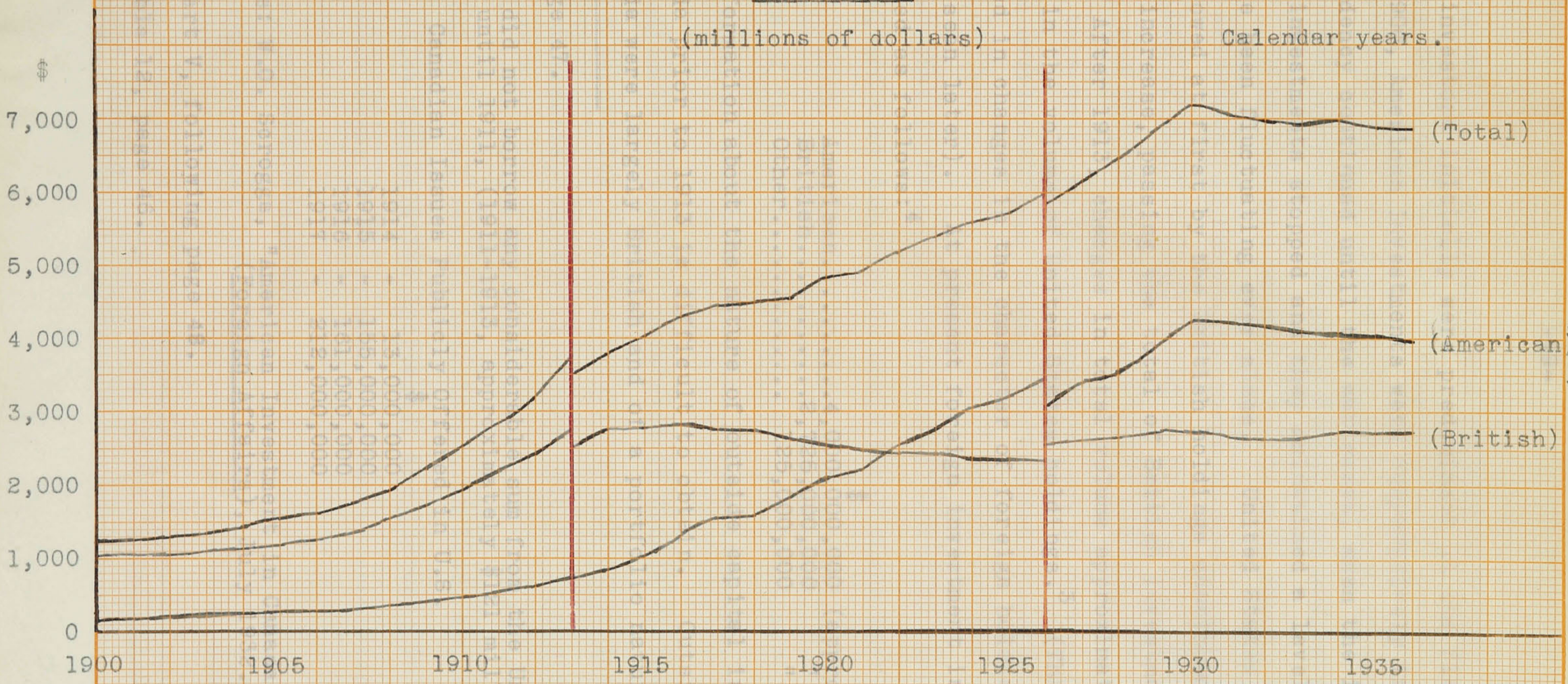
[1]See chart V following this page.

Chart V

OUTSIDE CAPITAL INVESTED IN CANADA
(1900-1936)

(millions of dollars)



Note: Other foreign investment is so small by comparison that it is omitted. In 1936 it amounted to $124.2 million.

Source: Table 12, page 46.

British investors initially were predominant in the field. Before 1900, American investments were comparatively inconsiderable.[1] This tendency continued until the war years, when the increase in British investments stopped and they maintained a level about which they have been fluctuating ever since. United States investments overshadowed at first by the British holdings continued at a rapid rate of increase, passing the total of British investments about 1921.[2] After 1913, changes in total volume approximate the changes in the volume of United States holdings.[3] (This is reflected in changes in the character of foreign holdings, as will be seen later). At present foreign investment in Canada is divided as follows:[4]

	$	
American..........	4,000,000,000	(approx.)
British...........	2,725,000,000	"
Other.............	125,000,000	"

Information about the nature of outside capital investment in Canada prior to 1913 is difficult to obtain. Outside holdings in Canada were largely British and of a portfolio nature,

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[1]See page 47.

[2]Canada did not borrow any considerable sum from the United States until 1911, (1911-1913, approximately $121 million).

Canadian Issues Publicly Offered in U.S.

		$
1914	-	13,000,000
1915	-	155,000,000
1916	-	161,000,000
1917	-	212,000,000

Source: W.O. Scroggs, "American Investment in Canada" (<u>Foreign Affairs</u>), July 1932.

[3]See chart V, following page 48.

[4]See table 12, page 46.

consisting mainly of government and railway securities publicly floated on the London market. "Foreign investments made in Canada prior to 1900 consisted to a great extent of government and municipal loans, and low yield railway and public utility bonds."[1] In an estimate made in 1900 by N.T. Bacon, total American investment in Canada was given at $150,000,000; $100,000,000 of which was estimated to be in mines, $25,000,000 in railways, and $25,000,000 in timber lands and loans.[2] Viner accepted this total as fairly accurate, but he considered that Bacon had overlooked some items. He assumed therefore, that $100,000,000 would cover all American capital in Canada in 1900, other than that in Canadian securities or owned by insurance companies, and that $50,000,000 would cover these last-named items. The above trends were continued through this period, although small beginnings of the growth of direct American investment in branch plants and by the purchase of common stocks is noted.[3]

An estimate of outside investment in Canada divided into government securities, railway securities and other investments (direct investments, industrial stocks, etc.), is contained in table 13.[4] In 1913, railway and government securities consisted of some 56% of total outside investment, in 1936, about 49%. In order to allow for relative increases, the increase in outside holdings of these types of investment is measured separately:

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[1]J. Viner, op. cit. page 99.

[2]N.T. Bacon, "American International Indebtedness" (<u>Yale Review</u>) Nov. 1900.

[3]5% of American companies (66 companies) at present operating in Canada began operations prior to 1900 - "Canadian-American Industry" page 19.

[4]page 51.

Table 13

PRINCIPAL TYPES OF OUTSIDE INVESTMENT IN CANADA
(1913-1936)

(millions of dollars) Calendar years

Year	Government Sec.	Railway Sec.	Other Investments	Total
1913	669.8	1,299.4	1,540.1	3,529.3
1914	794.5	1,448.6	1,620.8	3,863.9
1915	945.6	1,463.4	1,608.0	4,017.0
1916	1,177.2	1,479.0	1,666.5	4,322.7
1917	1,300.8	1,463.7	1,728.1	4,492.6
1918	1,308.9	1,463.4	1,763.3	4,535.6
1919	1,283.2	1,501.9	1,851.7	4,636.8
1920	1,349.2	1,574.3	1,946.6	4,870.1
1921	1,386.2	1,460.3	2,059.5	4,906.0
1922	1,541.6	1,457.4	2,208.0	5,207.0
1923	1,606.4	1,459.5	2,348.4	5,414.3
1924	1,641.4	1,494.8	2,479.4	5,615.6
1925	1,582.8	1,519.4	2,611.9	5,714.1
1926	1,562.4	1,549.0	2,854.1	5,965.5
1926	1,423.8	1,573.4	2,893.5	5,890.7
1927	1,482.1	1,602.5	3,100.7	6,184.3
1928	1,483.8	1,636.0	3,379.1	6,498.9
1929	1,492.7	1,771.0	3,572.0	6,835.7
1930	1,694.7	1,835.1	3,664.1	7,195.9
1931	1,668.8	1,896.3	3,502.7	7,067.8
1932	1,693.5	1,874.2	3,386.5	6,954.2
1933	1,704.3	1,859.2	3,350.4	6,913.9
1934	1,693.7	1,825.6	3,445.8	6,965.1
1935	1,717.7	1,683.0	3,496.8	6,897.5
1936	1,688.7	1,637.0	3,508.0	6,833.7

Sources: 1913-1926 F. Knox: Supplement to "Canadian-American Industry"
1926-1936 "British and Foreign Capital Invested in Canada" (Dominion Bureau of Statistics Bulletin)

	Government securities	Railway securities	Other holdings	Total outside investment
% increase	244	125	205	192

The greatest increase came in government securities, an increase coming chiefly during the war years and directly after. Since 1924, the volume of government securities held abroad has fluctuated at a fairly constant level, falling slightly during the period of prosperity until 1929; then increasing somewhat above the 1924 level during depression years. In a way, government issues thus reflect governmental financial exigencies. In the earlier period they were mainly for public works etc., which might be considered part of the general Canadian capital expansion; later, government issues were used chiefly for purposes of war finance; and of late, they seem to follow the trend of general economic conditions. A small increase in railway holdings abroad from 1914-1927 is noted, when expansion programs (and the subsequent disruption of rail revenues during the depression period) boosted them to their peak in 1931. The years 1935 and 1936 have shown a diminution in railway securities held abroad. The grouping other investments shows a steady increase until 1930 after which a recession period supplanted by small increases in recent years is noted.

More complete information about the character of British and foreign investment for the last decade or so in Canada is now available. Largely due to the efforts of the Dominion Bureau of Statistics, data on outside capital investment classified according to the chief categories of investment and their principal sources is obtainable. A summary of this information is given in tables 14, 15 and 16.

Table 14

MAIN TYPES OF BRITISH AND FOREIGN CAPITAL INVESTMENT IN CANADA

(millions of dollars) Calendar years.

	1926				1936			
	Br.	U.S.	Other	Total	Br.	U.S.	Other	Total
Govt. Securities								
Dominion...	250.1	381.9	...	632.0	318.8	487.5	...	806.3
Provincial...	72.6	342.0	5.1	419.7	67.8	447.7	3.2	518.7
Municipal...	187.0	185.1	...	372.1	137.6	226.1	...	363.7
	509.7	909.0	5.1	1,423.8	524.2	1,161.3	3.2	1,688.7
Public Utilities								
Railways	1,111.5	438.8	23.1	1,573.4	1,068.3	548.8	19.9	1,637.0
Other(traction, light, heat, tel., etc.)..	111.9	349.7	4.7	466.3	184.8	577.6	7.6	770.0
Manufacturing								
Wood and paper products...	96.0	376.5	1.1	473.6	94.3	369.6	1.1	465.0
Metal industries...	72.4	319.6	4.3	396.3	78.2	345.2	4.6	428.0
All other...	185.0	259.0	7.4	451.4	204.9	286.9	8.2	500.0
Mining...	95.0	190.0	3.0	288.0	89.0	244.0	7.0	340.0
Merchandising and service...	77.0	154.0	4.4	235.4	73.6	147.2	4.2	225.0
Insurance...	54.5	38.3	1.0	93.8	86.5	121.4	2.1	210.0
Finance and mortgage...	139.8	41.3	47.6	228.7	161.3	97.4	36.3	295.0
Miscellaneous...	145.0	85.0	30.0	260.0	160.0	85.0	30.0	275.0
Total	2,597.8	3,161.2	131.7	5,890.7	2,725.1	3,984.4	124.2	6,833.7

Source: British and Foreign Capital Invested in Canada (Dominion Bureau of Statistics Bulletin)

Table 15

OUTSIDE CAPITAL INVESTED IN CANADA

Proportion of Principal Types of Holdings

Percentage — Calendar years

	Great Britain			United States			Total		
	1926	1929	1936	1926	1929	1936	1926	1929	1936
Govt. Securities									
Dominion...	9.6	8.7	11.7	12.8	8.6	12.2	10.8	8.4	10.7
Provincial...	2.7	2.6	2.5	10.8	11.3	11.2	7.2	7.6	7.6
Municipal...	7.2	7.7	5.0	5.9	5.4	5.7	6.3	5.8	5.3
	19.5	18.0	19.2	29.5	25.3	29.1	24.3	21.8	24.6
Public Utilities									
Railways...	42.7	39.7	39.4	13.7	16.5	13.8	26.4	26.0	23.9
Other(traction, light, heat, tel., etc.,)...	4.3	3.5	6.8	11.0	11.8	14.5	8.0	9.0	11.2
Manufacturing									
Wood & paper prod...	3.7	4.2	3.8	11.9	11.4	9.3	8.1	8.8	6.7
Metal ind...	2.9	3.3	2.7	10.0	10.3	8.7	6.8	7.4	6.2
Other...	7.1	8.1	7.5	8.1	8.0	7.2	7.7	7.6	7.3
Mining...	3.6	4.3	3.2	6.0	6.1	6.1	5.0	5.3	5.1
Merchandising and service...	3.0	2.9	2.6	4.7	4.3	3.6	3.9	3.7	3.3
Insurance...	2.1	1.9	3.1	1.2	1.3	3.1	1.6	1.5	3.1
Finance and mortgage...	5.4	6.1	5.9	1.3	2.5	2.5	3.8	4.7	4.3
Miscellaneous...	5.7	6.0	5.8	2.6	2.5	2.1	4.4	4.2	4.0
Total percentage	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total $ million	2,597.8	2,764.2	2,725.1	3,161.2	3,926.5	3,984.4	5,890.7	6,835.7	6,833.7

Source: "British and Foreign Capital Invested in Canada" (Dominion Bureau of Statistics Bulletin)

Table 16

BRITISH AND UNITED STATES CAPITAL INVESTMENT IN CANADA

Percentage of Holdings in Principal Categories of Investment

1936

(millions of dollars) Calendar years

	Br.	%	U.S.	%	Total Investment
Govt. Securities					
Dominion...	318.8	39.7	487.5	60.3	806.3
Provincial...	67.8	13.6	447.7	86.4	518.7
Municipal...	137.6	37.8	226.1	62.2	363.7
	524.2	31.0	1,161.3	68.3	1,688.7
Public Utilities					
Railways	1,068.3	65.2	548.8	33.4	1,637.0
Other(traction, light, heat, power, tel., etc)...	184.5	24.0	577.6	75.0	770.0
Manufacturing					
Wood and paper products...	94.3	20.2	369.6	79.8	465.0
Metal industries...	78.2	16.0	345.2	80.6	428.0
All other...	204.9	41.0	286.9	57.4	500.0
Mining	89.0	26.1	244.0	71.8	340.0
Merchandising and Service...	147.2	65.4	73.6	32.7	225.0
Insurance...	86.5	41.2	121.4	57.8	210.0
Finance and Mortgage...	161.3	54.6	97.4	33.0	295.0
Miscellaneous...	160.0	58.2	85.0	30.9	275.0
Total	2,725.1	39.8	3,984.4	58.3	6,833.7

Note: Other Foreign investment includes negligible amounts except in the case of: Railways $19 million; Finance and Mortgage $36 million; Miscellaneous $30 million.

Source: British and Foreign Capital Invested in Canada (Dominion Bureau of Statistics Bulletin).

In all, approximately 24% of total outside investment is in Government securities, dominion securities generally accounting for about 10%, provincial securities 7.5%, and municipal securities 6%. Railway security holdings show a decline but still amount to 24% of total outside investment, while other public utilities have increased to 11% of the total. Manufacturing investments consist of about 20% of total investments. The remainder is divided variously amongst the remaining groups, the largest being mining with an investment of over $300 million, amounting to about 5% of total outside investment.[1]

The bulk of British investment is in railway securities (40%), and in government securities (20%), chiefly dominion issues. United States investment is more evenly divided among the different groups. The largest single category of United States holdings is government securities (30%), mainly dominion and provincial securities, most of the remainder being divided as follows: 13% in railways; 15% in other public utilities, and 30% in the various manufacturing groups (compared to 15% of British investment in the manufacturing grouping).[2] Now these percentages are not strictly comparable. They refer to holdings in the various classifications in relation to respective total investment. The relative size of the British and United States holdings in the various categories of investment is not being considered.

A direct comparison of the volume of British and United States investment according to principle classification of investment is made in table 16.[3] Inasmuch as the United States investment in

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[1] See table 15, page 54.
[2] Idem.
[3] page 55.

Canada is much larger than the British, it is natural to expect to find United States holdings larger than British in most fields.[1] British investors predominate only in the field of railway securities (65%), and in a few of the smaller groups: merchandising and service (65%), finance and mortgage (55%), and miscellaneous (58%). United States investors hold by far the greater amount of government securities, especially in the provincial field. Except in the case of railway securities, American investments amount to 70-80% of capital ownership in the larger groupings. The one exception is miscellaneous manufacturing investments, where it amounts to only 60% - probably on account of large British holdings in the textile industry. Apart from an investment of $19 million in railways, $36 million in finance and mortgage, and $30 million in miscellaneous investments, other foreign investment is relatively insignificant.[2] However, it should be remembered that numerous railway and government issues initially floated in London, and purchased by foreigners, are calculated here according to place of original issue. This undoubtedly swells the total of British holdings somewhat, but not enough to really affect any conclusions which might be drawn.

The main outlines of outside investment in Canada should now be apparent. Since 1930, the flow of capital to Canada seems to have reached a saturation point. Foreign investment in Canada is almost wholly confined to British and American investors. The other two salient facts are the continued preponderance of investment in railways and government securities which still amount to

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[1]Total United States investment is 146% of total British investment.

[2]About 1.9% of total investment (1936).

about one half of the total; and the dominance of American holdings in all important investment fields except railway securities.

The importance of outside investment can only be grasped in its relation to total capital investment in Canada. Approximately 38% of all capital employed in Canadian industry is owned outside Canada.[1] (Canadian figures for capital invested are taken from capital employed figures; accordingly the two as used here are synonymous). In 1933, 80% of total capital employed in Canadian railways, and 50% of the total capital employed in mining was owned outside Canada. About 40% of capital employed in manufacturing industries was held by non-Canadians.[2] Inasmuch as roughly 40% of total capital investment in Canada is held outside of Canada, the significance of outside investment to the Canadian economy becomes strikingly clear. Of course, this does not mean that the same proportion of control of Canadian industry is vested abroad.

Most of outside investment in Canada is of a portfolio nature, the emphasis being placed on the actual loan and the interest rates, rather than on its employment. It is a more or less 'capitalist' investment, in which the lender is dissociated from the conduct of the enterprise involved. This is true of the majority of outside investments in Canada, especially railway and government issues, which are almost wholly of this type. It takes the form of bond and debenture issues, in contrast to direct investment in branch plants and common stocks. British investment in Canada is composed almost overwhelmingly of fixed interest bearing issues of

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[1] 1936.

[2] Table 17, page 59.

Table 17

THE RELATION OF FOREIGN CAPITAL HOLDINGS IN CANADA TO TOTAL CANADIAN CAPITAL INVESTMENT. (1933)

	(millions of dollars)		Calendar year
	Total foreign holdings	Total capital investment(3)	% of for. holdings to total investment
-Govt. Securities	1,684	5,576	32
-Public Utilities			
Railways..	1,950	2,438	80
Other(traction light, heat, tel., etc.)..	752	2,256	33
-Industry			
Wood & wood prod. (1)..	458	1,093	42
Metal ind...	401	864	46
Other ind.(2).	459	1,255	37
-Mining, clay prod., etc...	368	729	50
-Merchandising and service..	220	2,050	1
-Finance & mortgage...	283	1,038	27
-Insurance...	162	..	..
-Miscellaneous..	75	..	..
-Total	6,914	17,500	39

Total capital employed in Canada according to census of industry figures in 1933 given as approximately $17,500,000,000.
Includes $535 million in government owned utilities.
The direct Canadian governmental debt, 1933, as reported by Ames & Co. is

Dominion debt	$2,858	million
Prov. "	1,224	"
Munic. "	1,494	"
Total "	$5,576	"

(1) includes logging and timber limits.
(2) includes manufacture of: vegetable products; animal products; textile products; chemical and allied products, etc.
(3) taken mainly from Census of Industry figures.

Sources: "British and Foreign Investment in Canada" (Dominion Bureau of Statistics Bulletin)
"Agenda on Balance of International Payments and Capital Movements" prepared for Conference of British Commonwealth Statisticians, September 1935 by the Dominion Bureau of Statistics.

Table 18

CAPITAL INVESTED IN CANADA*
(1936)

(thousands of dollars) Fiscal year

Capital	Percentage	Dollars
Held in Canada	62½	11,200,000
Held in United States	22	4,000,000
Held in Great Britain	15	2,800,000
Held in Other Countries	00½	95,000
Total	100	18,000,000 approx.

* Includes bonded indebtedness of Dominion, Provincial and Municipal governments, investments in railways, all manufacturing concerns, mines and metal industry, public utilities, trading establishments, finance, insurance, land and mortgages. Does not include private capital in domestic enterprises, e.g. farms, homes, etc.

Note: Compare Canadian national wealth estimated at $26,000,000,000

1933 total capital invested in Can. estimated at $17,500,000,000
Canadian national wealth estimated at $25,768,000,000

Source: Canada Year Books.

Table 19

BRITISH AND FOREIGN INVESTMENT IN CANADIAN RAILWAYS
(1933)

(thousands of dollars) Calendar year

	Canada	G.B.	U.S.	Other Countries	Total
-Can.Nat.Guaranteed Bonds & Debentures	242,335	424,550	368,291	...	1,035.176
-Can.Nat.Bonds & Debentures not Guaranteed...	17,013	114,240	58,113	...	189,366
-Can.Pacific Bonds & Debentures...	133,825	294,286	153,197	2,052	583,360
-C.P. Common...	61,841	160,967	92,292	19,899	334,999
-C.P. Preference..	631	134,278	796	1,551	137,256
-Misc. Bonds and Debentures...	28,615	47,444	39,298	...	115,357
-Misc. Stocks...	3,250	5,555	33,000	...	41,805

Source: Agenda on the "Balance of Payments" prepared for conference of British Commonwealth Statisticians 1935. (Dominion Bureau of Statistics Bulletin).

a portfolio nature. Nonetheless,her direct industrial investments in certain fields amount to considerable sums.[1]

The results of a detailed study of direct American investment in Canada undertaken recently, have been published.[2] Two estimates of American direct investment in Canada are available, the first by the United States Department of Commerce (1929), the second by the Dominion Bureau of Statistics (1932).[3] The apparent discrepancies, accentuated by the fact that the Department of Commerce figures are value figures at prosperity levels, and those of the D.B.S. are at depression levels, are really not as great as they seem, being due to different methods of calculation and handling of material.[4] The D.B.S. estimate is more recent and its use of 'capital employed' data, makes it more reliable for our purpose. Capital employed in American controlled and affiliated companies in Canada is placed at $2,167,249,999.[5] The percentage of non-American minority interests , which are chiefly Canadian,in these firms, has been estimated at 22.29%.[6] Allowing for some growth in American direct investment since 1932, and for the proportion that is neither Canadian or American, this may be taken as

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[1]There were 98 British manufacturing firms in Canada in 1932, employing a capital of $164 million. "Canadian-American Industry" page 289.

[2]Marshall,Southard and Taylor - "Canadian-American Industry" (Ryerson Press, Toronto) 1936.

[3]See table 20 (a) page 62.

[4]"Canadian-American Industry" pages 22 ff.

[5]1932.

[6]Idem, table V facing page 24.

Table 20

UNITED STATES DIRECT INVESTMENT IN CANADA

(a) American Controlled and Affiliated Companies in Canada

(thousands of dollars) Calendar years

	U.S.Dept.of Commerce (1929)[1]		D.B.S. (1932)[2]	
	No. of firms	Value	No.of firms	Cap. Employed
Manufacturing	524	540,593	690	545,692
Pulp & paper	46	278,875	115	287,600
Mining	123	400,000	49	236,599
Pub.Utilities	76	541,471[3]	81	707,751
Petroleum	14	55,047	*	...
Selling	117	37,874	257[4]	291,725
Agriculture	15	15,000	*	...
Fishing	14	5,749	*	...
Miscellaneous	95	85,711	39[5]	97,882[6]
Totals	1,024	1,960,320	1,177	2,167,249

[1]Estimate of the U.S. Dept. of Commerce made in 1929 based on "present book or fair market value".
[2]Dominion Bureau of Statistics estimate made in 1932 based on capital employed taken mainly from Survey of Production.

[3]Includes $107 million for C.P. common, which is considered a portfolio investment by the D.B.S. and therefore not included in their estimate.
*Included elsewhere.
[4]Of these 54 are included with other groups.
[5]Exclusive of land, timber limits, real estate, etc.
[6]Includes $60 million for land, timber limits, real estate, etc.

Note: The percentage of non-American minority interests chiefly Canadian in the above companies was estimated in "Canadian-American Industry" 1933 to be 22.29%.

(b) The Relative Size of American Controlled And Affiliated Companies in Canada.

	Percentage of Total		
Capital	Companies	Capital Employed	Value of Prod.
Under $50,000	24	...	2
$50-199,000	29	2	6
$200-499,000	17	3	6
$500-999,000	11	5	7
$1 mill. & over	19	90	79
	100	100	100

Source: "Canadian-American Industry"

approximately 20%. Accordingly, of the $2,167 million of capital employed by American controlled companies in Canada, $433,499,000 may be said to be Canadian owned, and therefore, American capital invested directly in Canadian industry is approximately $1,733 million, or about 43% of total American investment (1932).[1]

The largest number of American controlled firms are in manufacturing industries (690), selling (257), pulp and paper (115). The public utility group, totalling some 81 firms, employ the largest amount of capital, followed by manufacturing.[2] The really significant feature of direct United States investment in Canada, not at first apparent, is the high degree of concentration despite the large number of companies involved. It appears that 19%

[1]This estimate for 1932 embraces 1,177 American controlled or affiliated firms in Canada. To bring this up to date, consider data given in the Financial Post Business Year Book (1938) on branch plants and new industries established, compiled from data on new industries in Canada, published weekly in the Financial Post.

New Plants in Canada

Country of Origin	1932	1933	1934	1935	1936	1937
United States	106	50	31	36	25	13
Great Britain	5	6	3	1	--	1
Other	5	4	--	1	--	--
Canadian	92	76	78	96	186	137

This would place the number of American controlled plants in Canada (1936) at about 1,400. (Of course, this makes no allowance for withdrawals etc.... It is further likely that the majority of these are small companies with a low capitalization.)

[2]"Canadian-American Industry" Table V, facing page 24.

of the grand total of American owned companies in Canada, contained in a group employing over one million dollars capital, employ 90% of total capital.[1] In this same grouping, some 14% of all the manufacturing companies employ 82% of total capital invested in American companies in this classification and turn out 75% of their production.[2] The public utilities, wood and paper product companies, mining companies, and vegetable products (tire and rubber) companies show the greatest concentration in this high capital employed grouping. The largest number of American controlled companies (30% of the total) are grouped in the class employing \$50,000-\$200,000 capital, but they employ only 2% of total capital and produce 6% of total output.[2] Textiles, non-ferrous metals, chemicals and miscellaneous are concentrated to a larger extent in the smaller groupings, being in the main specialty producers. "The primary conclusion to be drawn is that while the companies employing up to \$200,000 capital are most prevalent in number (over 50%) it is the relatively uncommon 'big' companies in which most of the capital has been invested and which turn out most of the products."[3]

It is further estimated by the authors of "Canadian-American Industry" that American interests control almost 1/4 of the Canadian manufacturing output, the concentration being largest in automotive goods (82%), electric apparatus (68%), rubber goods (64%)

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[1]Table 20 (b), page 62.

[2]"Canadian-American Industry", Table VII opposite page 27.

[3]Idem, page 29

and non-ferrous metals (50%). Again, Americans control more than 1/3 of Canadian mining output, 1/3 of the output of electric power, 2/3 of the natural gas output.[1] However, the field of transportation and communication are signally under Canadian control...and in financial fields, insurance is the only one where American companies compete actively (doing about 1/3 of the business).

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[1]Op. cit. page 264.

The other side of the balance sheet of international indebtedness shows Canadian investment outside of Canada. Whereas Canadian capital investments abroad by no means equal the huge volume of outside investment in Canada, they are by no means insignificant. A signal difference between the two is the larger element of liquidity in Canadian investments abroad. Whereas outside investment in Canada is almost wholly of a long-term investment character, a goodly proportion of Canadian funds abroad are invested in short-term holdings, speculative stock investments and call loans, chiefly on the New York market. This feature is accentuated in boom times.

Attention is generally diverted from Canadian foreign investment by the size and weight of outside investment in Canada and the consequent net interest payments abroad. Canada is clearly a debtor nation, nevertheless since the war her capital exports have often reached important figures. Canadian investment abroad was comparatively insignificant in 1900, about $100 million, growing to about $250 million in 1913.[1] It consisted largely of commercial bank balances abroad and British and foreign securities held by the banks (largely due to their policy of maintaining funds received from the sale of Canadian securities abroad as outside reserves). The second estimate differs greatly from Viner's figures, due chiefly to the fact that Knox estimates miscellaneous investments (direct investments, private purchase of securities, etc.) at a much higher level than does Viner.[2] The negative balances in

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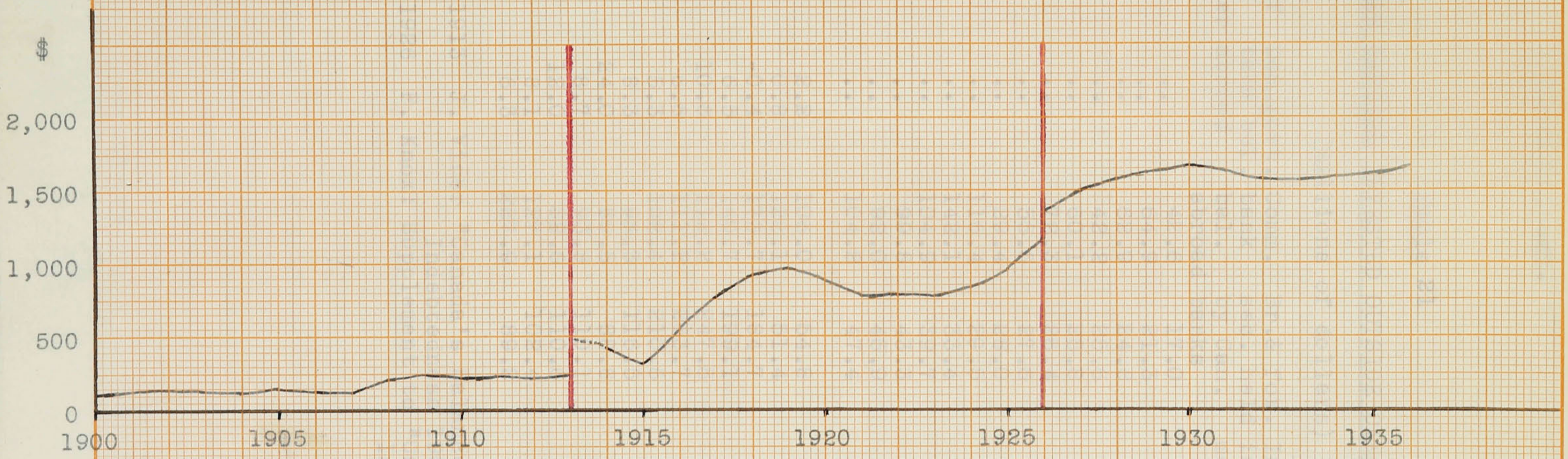
[1]Table 21, page 67.

[2]Idem.

Chart VI

CANADIAN CAPITAL INVESTED ABROAD
(1900-1936)

(millions of dollars) Calendar years



Sources: 1900-1926 Table 21, page 67.
1926-1936 Table 22, page 69.

Table 21

CANADIAN CAPITAL INVESTED OUTSIDE CANADA (1900-1926).

(millions of dollars) Calendar years

Year	On a/c of dealings with other govts.	Dom.govt. bank bal. abroad	Comm. bank bal. abroad	Br.& for. sec. held by Can. banks	Ins. cos. investments	Misc. investments	Total
1900	..	..	42.6	17.0	..	37.6	97.2
1901	..	..	64.9	21.3	..	39.6	125.8
1902	..	..	62.9	24.6	..	41.6	129.1
1903	..	..	42.2	25.6	..	44.6	112.4
1904	..	..	60.1	25.8	..	47.6	133.5
1905	..	..	72.3	26.4	..	50.6	149.3
1906	..	..	55.6	27.6	..	53.6	136.8
1907	..	..	29.4	28.0	..	57.6	115.0
1908	..	..	116.4	29.5	..	61.6	207.5
1909	..	..	142.1	33.4	..	65.6	241.1
1910	..	..	104.9	39.7	..	70.6	215.2
1911	..	..	99.8	43.3	..	75.6	218.7
1912	..	..	92.0	45.9	..	80.6	218.5
1913	..	..	104.2	47.4	..	85.6	237.2
1914	-24.3	2.2	106.0	54.8	18.6	245.3	402.6
1915	-120.0	0.8	122.1	51.4	24.5	251.3	330.1
1916	-112.1	-0.4	173.7	184.7	33.4	262.3	541.6
1917	111.7	6.5	140.7	199.1	37.3	274.3	769.6
1918	221.5	10.6	112.2	247.5	40.6	287.3	919.7
1919	211.1	6.6	111.2	263.7	41.8	307.3	941.7
1920	187.4	5.3	102.4	210.6	46.0	342.3	894.0
1921	162.8	8.3	96.3	116.5	54.1	359.7	797.7
1922	106.5	24.0	89.5	88.8	87.6	375.1	771.5
1923	40.1	8.7	93.8	110.1	121.8	408.0	782.5
1924	36.6	12.0	82.6	110.6	154.3	437.8	833.9
1925	36.4	8.1	127.1	102.4	173.7	506.3	954.0
1926	36.0	6.3	227.9	89.2	209.4	617.7	1,186.5

Sources: 1900-1913 J. Viner "Canada's Balance of International Indebtedness 1900-1913"
1914-1926 F. Knox: Supplement to "Canadian-American Industry".

the first two columns during the war years represent overdrafts in London by the Canadian government to finance war purchases. This period witnessed a steady growth in Canadian investment abroad, being most marked by the rapid increase in insurance company investments and miscellaneous items. Canadian investment abroad passed the billion dollar mark about 1926. Percentages show phenomenal increase in Canadian investment abroad, the increase from 1900 to 1926 being some 1200% - although this is of course due to the small size of the initial amount.

The years 1926-1936 registered further growth in Canadian investment abroad.[1] The statistical data for these years is more complete, although, like the previous figures, they suffer from the handicap of the large number of miscellaneous investments (investments difficult to classify and ascertain on the basis of available information). For example, in 1936, over 50% of total investment abroad is classified as miscellaneous. In many cases these are little more than guesses. With this in mind, these figures must be approached with caution - not that this need negate their validity as to trends. Again, there is an important discrepancy between this later estimate and the preceding ones. This latest Dominion Bureau of Statistics estimate omits "Investment of Canadian Insurance Companies in Other Countries," an item which has hitherto been included in other estimates.[2] (It appears in the last column of Knox's estimate). The Dominion Bureau of Statistics has for some time been doubtful about the validity and handling of this

[1]Table 22, page 69.

[2]Net assets of Canadian Insurance companies held abroad are given in table I (appendix).

Table 22

CANADIAN INVESTMENTS ABROAD (1926-1936)

(millions of dollars) Calendar years

Year	Can. govt. credits	Est. net assets of Can. banks outside Canada	Foreign securities held in Can. by Can. ins. cos.	Direct Investment	Miscellaneous	Total
1926	36.1	370.3	91.4	397.0	458.0	1,352.8
1927	32.4	354.2	124.2	401.6	602.0	1,514.3
1928	31.1	267.6	156.5	412.0	725.0	1,592.2
1929	30.9	179.8	184.6	423.5	810.0	1,628.8
1930	30.7	180.2	156.7	443.0	842.0	1,652.6
1931	30.5	152.5	154.5	445.0	856.0	1,638.5
1932	30.5	114.8	144.2	446.0	853.0	1,588.5
1933	30.5	90.9	136.8	447.0	865.0	1,570.2
1934	30.5	109.7	142.2	449.0	874.0	1,605.4
1935	30.5	109.6	162.8	453.0	884.0	1,639.9
1936	30.5	107.0	168.0	457.0	894.0	1,656.5

Source:"British and Foreign Capital Invested in Canada and Canadian Capital Invested Abroad"(Dominion Bureau of Statistics Bulletin).

Table 23

MAIN TYPES OF CANADIAN INVESTMENT ABROAD

(millions of dollars) Calendar years

	1926				1936			
	Br.	U.S.	Other	Total	Br.	U.S.	Other	Total
-Can. govt. credits...	--	--	36.1	36.1	--	--	30.5	30.5
-Net assets of Can. banks outside Can..	42.0	262.4	65.9	370.3	12.6	86.0	8.4	107.0
-Foreign securities held in Can. by Can. ins. companies...	0.6	70.6	20.2	91.4	11.2	130.2	26.6	168.0
-Direct investments..	7.0	250.0	140.0	397.0	14.0	270.0	173.0	457.0
-Misc...	10.0	195.0	253.0	458.0	10.0	501.0	383.0	894.0
Total	59.6	778.0	515.2	1,352.8	47.8	987.2	621.5	1,656.5

Source:"British and Foreign Capital Invested in Canada and Canadian Capital Invested Abroad"(Dominion Bureau of Statistics Bulletin) item. These investments held by insurance companies abroad are not really investments, they are a reserve against liabilities to policy holders, in somewhat the same way that bank deposits are a reserve against liabilities to depositors; neither of these can be considered as assets until the reserve liability has been placed against them. "The large assets in other countries by Canadian insurance branches in those countries have against them, beside ordinary liabilities, the fiduciary interest of the policy holders. In fact, when the prospective claims of the policy holders are considered it appears that on balance there is a small net investment of these branches in Canada, rather than a Canadian investment abroad. This is possible because the assets underlying the Reserve Fund need not all be held abroad."(x)

Hence it would appear that Knox's estimates (omitting the insurance figures) are, if anything, on the conservative side, and by comparison, Viner's even more so. Dominion Bureau of Statistics figures for 1926 (compiled in 1935) including "Investment of Insurance Companies abroad" total $1,481 million,[1] compared to Knox's estimate of $1,185 million. Canadian holdings abroad in 1936 amounted to approximately $1,650 million, about one quarter of outside investment in Canada. Compared to Viner's estimate Canadian investment abroad is now sixteen times its size at the beginning of the century, in contrast to an increase of five and a half times in outside investment over the same period.

Data on Canadian investments in other countries prior to

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[1] Agenda on "Balance of Payments"......prepared for the Conference of British Commonwealth Statisticians 1935. (D.B.S.) page 18.

(x) "British and Foreign Investment in Canada and Canadian Investment Abroad 1926-1936". (D.B.S. Bulletin) page 2

1926 is limited, inadequate and hazardous. It consists of estimates and figures perfunctorily obtained and variously taken. As a result it is safer not to press conclusions about such holdings too far. During the early period they consisted in the main of bank balances held abroad, insurance company investments[1], and miscellaneous holdings.[2]

The Dominion Bureau of Statistics now classifies Canadian investments outside Canada in five categories.[3] In comparison to the classification previously used[4], it places all foreign bank holdings under one head, substitutes "Foreign Securities Held in Canada by Canadian Insurance Companies" for the broader heading "Foreign Investment of Insurance Companies" - and includes a new classification, "Direct Investment". The largest single grouping is "Miscellaneous Investment". In a way, this is due to the inadequacy of the information available, necessitating the lumping of all investments of portfolio types, apart from securities held abroad by banks and insurance companies, and other items difficult to classify on the basis of existing data, under this head. It consists of estimates of portfolio investments abroad by corporations and individuals (other than banks and insurances companies) - much of which is accounted for through transactions on the New York stock exchange, and holdings of foreign bonds, e.g. International

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[1]Omitted from recent estimates.

[2]These consisted largely of railway lines in the United States, and controlling common stock holdings in light, power, and tramway enterprises chiefly in South America and the West Indies. Private investments by Canadians in foreign securities, especially high grade United States investment issues, were also large. (see Viner, op. cit. pp. 89,ff).

[3]Table 23, page 69

[4]Table 21, page 67.

Petroleum, Brazilian Traction, Chilian, French Line, German and Italian bonds. An understanding of this field is further complicated by the fact that their values have altered in the periodic fluctuations of security prices. Again many of these foreign holdings are in default and their standing is doubtful. This investment group has increased in proportion to total Canadian investment abroad, growing from one third of total Canadian investments abroad in 1926 to over one half in 1936, almost doubling itself during this time. The Dominion Bureau of Statistics places the total for this classification in 1936 at $894 million: $10 million in Great Britain; $501 million in the United States; and $383 million in other foreign countries.[1]

The classification next in size is "Direct Investment". This covers Canadian investments in branch or subsidiary companies abroad, or companies controlled by Canadian interests.[2] These are chiefly large railway holdings, distillery and pulp and paper companies in the United States; also the Massey-Harris interests in the United States, Australia and other countries. Also included here are buildings owned abroad by the Canadian government, banks and others. The direct investment amounted to $457 million in 1936, about $60 million more than in 1926 - of which $14 million was in Great Britain; $270 million in the United States; $173 million in other foreign countries.[3]

In view of the large American direct investment in Canada it is of interest to note that in relation to population and

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[1]Table 23, page 69.

[2]Minority interests are not included, they are included with portfolio investments and come under the "Miscellaneous" heading.

[3]Idem.

volume of investment, the Canadian industry in the United States is proportionately larger than American industry in Canada. "It is of course obvious that, because of the much greater economic size of the United States, it does not at all follow from these percentages that the impact of Canadian industry in America on the American economy is comparable to that of American industry in Canada."[1]

Foreign securities held in Canada by Canadian insurance companies amount to about one tenth of Canadian investment abroad. This is a real foreign investment, as there are no counterbalancing liabilities outside Canada. This amounted to $184 million in 1936, divided as follows: $11 million in Great Britain; $130 million in the United States; and $27 million in other foreign countries.[2] Estimated net assets of Canadian banks outside Canada were about two thirds of the insurance company holdings in 1926. These are estimated from a special returns by the Canadian banks. Holdings abroad by the Canadian banks have shrunk greatly since the 1929 financial debacle. In 1926, net assets of Canadian banks abroad amounted to $370 million, most of which consisted of call money in New York. The Wall Street crash in 1929 caused the repatriation of most of these funds.[3] Inasmuch as most of these holdings were short-term and in a way speculative transactions, as was true of other Canadian security transactions during this period, they tend to confuse the real investment picture.

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[1] Marshall, Southard and Taylor, "Canadian-American Industry," pg. 177.

[2] Table 23, page 69.

[3] Net assets of Canadian banks in United States (millions of dollars)

1926	1927	1928	1929	1930
262.4	246.2	183.3	91.8	90.2

Many of these tendencies, although not entirely eradicated, have however diminished since the collapse of the Wall Street bubble. In 1936, net assets of Canadian banks held outside Canada were $107 million: $12.6 million in Great Britain; $86 million in the United States, and $8.4 million in other countries.[1]

The last and smallest item in this classification is Canadian government credits. This figure comes from the public accounts. It consists of the amount outstanding of loans made by Canada to foreign governments during and after the war. The remaining loans consist of a loan of $6½ million to the Greek government, and $24 million to the Roumanian government, mainly credits granted for the purchase of Canadian merchandise in the immediate post-war years. This probably should be written off as it is doubtful whether these are more than book assets.

There has been little change in the direction of Canadian investment abroad since 1926.[2] Investments in Great Britain are comparatively negligible, the largest single field of Canadian investment abroad being the United States. The approximate distribution of Canadian investment outside of Canada is as follows:[3]

Cal. year	G.B.	U.S.	O.F.	Total	
	%	%	%	%	$
1926	4.5	57.5	38.0	100	1,352 mill.
1936	3.0	60.0	37.0	100	1,656 "

Most of Canadian bank assets held abroad are held in the United States, as is the case of Canadian insurance company holdings. Direct and miscellaneous investments are divided between the United States and other foreign countries, with the United States again absorbing the greatest share.

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1 Table 23, page 69.
2 Idem
3 Compiled from table 23, page 69.

The essential difference between foreign and domestic investment, apart from possibilities of capital withdrawals, inflationary effects and so on, is the annual debt service payments to foreigners made necessary by the former. This involves more than a payment of interest or dividends - it requires an international transfer of funds. Whereas payments to Canadians affect the internal distribution of the national income, payments to outsiders occasion a net withdrawal of part of this income. Again, the necessity of making large annual payments in foreign funds may contribute to exchange stringencies, and introduces a strong element of rigidity into the internal economic structure. The Canadian experience amply bears this out.

The annual remittances to service her foreign debt have grown with the increasing volume of outside investment in Canada.[1] Interest and dividend payments by Canada to non-resident investors were estimated at $310 million in 1936, ($156 million in interest, $154 million in dividends)[2]. The last decade or so, rather than featuring a steady growth in these payments concomitant with a rising volume of outside investment, has demonstrated a tendency for these remittances to fluctuate with business conditions - swelling in good times, and dropping rapidly in periods of depression due chiefly to large numbers of defaults and a sharp drop in dividend earnings. Offsetting these annual remittances to outsiders is the income from Canadian investment abroad, which

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[1]The peak was in 1930 ($348 million) - for interest and dividend payments to and from foreigners. Table 24, page 76.

[2]Estimated by the Dominion Bureau of Statistics, Report tabled in the House of Commons, April 1, 1938.

Table 24

INTEREST AND DIVIDEND PAYMENTS AND RECEIPTS
(1900-1936)

Receipts From Canadian Capital Invested Abroad
Payments on Outside Capital Invested in Canada

(millions of dollars) Calendar years

Year	Receipts	Payments
1900	4.0	38.0
1901	3.9	37.4
1902	5.0	39.4
1903	5.2	40.7
1904	4.5	43.0
1905	5.3	47.4
1906	6.0	51.7
1907	5.5	55.6
1908	4.6	75.9
1909	8.3	83.9
1910	9.6	92.1
1911	8.6	101.5
1912	8.7	117.5
1913	8.7	137.2
1914	16.6	178.0
1915	13.1	174.7
1916	23.6	193.3
1917	28.3	208.0
1918	32.4	217.2
1919	39.6	221.5
1920	46.9	231.4
1921	47.2	252.3
1922	40.0	249.9
1923	40.6	266.3
1924	40.3	268.9
1925	40.2	270.7
1926	45.2	285.3
1926	39.0	240.0
1927	46.5	257.3
1928	52.9	273.9
1929	61.7	321.8
1930	59.5	348.1
1931	50.3	330.1
1932	39.4	301.2
1933	39.0	263.3
1934	55.4	267.0
1935	62.0	270.6
1936	76.2	310.0

Sources: 1900-1913 J. Viner "Canada's Balance of International Indebtedness 1900-1913"

1914-1926 F. Knox Supplement to "Canadian-American Industry"

1926-1936 "The Canadian Balance of International Payments 1926-1936" (Dominion Bureau of Statistics Bulletin) though by no means equivalent, is not intangible. In 1936, interest and dividend receipts by Canadians from abroad reached a peak of $76.2 million. This makes a net annual outward transfer of approximately $230 million necessary.

These figures are to a degree unreliable, in many instances being based on estimates of an average return on estimated total investment. Their fluctuating and uncertain nature makes them the most inadequate group of data on capital movements, the chief weaknesses lying in the indirect method of estimation, especially insofar as direct and miscellaneous investment are concerned. As an example of the uncertainty of these figures compare Dominion Bureau of Statistics estimate of receipts from Canadian investments abroad 1927-1933 - published in 1935(1), with the estimate used here - published in 1937(2).

The analysis of interest and dividend payments abroad, in table 25(3), covers a period 1927-1933. It divides these remittances into the component categories of interest payments and dividend payments respectively, also showing the relative flow of these payments to Great Britain, the United States and other countries. The outstanding characteristics are as might be anticipated. Remittances are divided between British and American investors roughly in proportion to their investment, although United States investments appear to be more remunerative on the whole, probably because they are more recent.(4). Interest payments still predominate although dividend payments tend to

(1) See table II , appendix, page ii.

(2) See table 24, page 76.

(3) Page 78.
(4) See tableIII, appendix, page ii.

Table 25

INTEREST AND DIVIDEND PAYMENTS ON OUTSIDE CAPITAL INVESTED IN CANADA.

The Relation of Interest and Dividends to Total Payments.

(millions of dollars) Calendar years

	Int.	%	Div.	%	Total
a) Payments to all Countries					
1927	155.1	58.1	111.5	41.9	266.6
1928	162.3	57.4	120.5	42.6	282.8
1929	166.5	50.4	163.5	49.6	330.1
1930	174.1	48.5	182.2	51.5	356.3
1931	181.3	53.9	155.0	46.1	336.4
1932	173.2	56.0	135.8	44.0	309.0
1933	168.8	60.5	110.0	39.5	278.7
b) Payments to Gr. Britain					
1927	67.3	61.5	41.2	38.5	108.6
1928	66.6	63.3	38.5	36.7	105.1
1929	66.7	56.1	52.3	43.9	119.1
1930	65.4	54.4	54.6	45.6	120.1
1931	64.0	59.5	43.4	40.5	107.4
1932	63.5	63.5	36.6	36.6	100.1
1933	61.6	67.5	29.7	32.5	91.3
c) Payments to U.S.					
1927	87.2	57.0	65.8	43.0	152.9
1928	95.0	55.5	75.9	44.5	170.9
1929	99.2	49.0	103.0	51.0	202.2
1930	108.0	47.7	118.4	52.3	226.4
1931	116.6	52.9	103.9	47.1	220.5
1932	109.1	54.5	90.9	45.5	200.1
1933	106.6	58.1	73.6	41.9	180.3
d) Payments to Other Countries					
1927	.579	11.6	4.461	88.4	5.0
1928	.688	10.3	6.025	89.7	6.7
1929	.576	06.7	8.177	93.3	8.7
1930	.670	06.1	9.110	93.9	9.8
1931	.680	07.9	7.754	92.1	8.4
1932	.596	06.9	8.148	93.1	8.7
1933	.553	07.7	6.597	92.3	7.1

Source: Agenda on "Balance of International Payments and Capital Movements" prepared for Conference of British Commonwealth Statisticians, September 1935. (Dominion Bureau of Statistics Bulletin).

absorb a greater share of total payments. In good times dividend payments will be equal to about half the total although an era of poor business causes them to drop precipitously. The comparative stability, or preferably rigidity, of interest payments can also be noted. The drop in total interest payments from a peak in 1931, amounted to $13 million in two years, while dividend payments dropped $47 million over a similar period, 1930-1932. Increases in dividend payments are just as phenomenal.

These last two tendencies are reflected in the remittances to Great Britain and the United States respectively. Interest payments still play a greater role in British receipts than American, although the gross total of United States interest receipts is larger than that of Great Britain, due to the greater amount of United States investment. In good years, dividend payments to United States will exceed interest payments, although this is not true of returns on British investment. It is interesting to note that remittances to other foreign countries, although a very small proportion of the total (slightly less than 2%), consist almost exclusively of dividend payments. Nevertheless, as a class, interest payments are still the most important charge, on account of their definiteness and the element of fixity in their nature. The preponderance of interest charges can be explained to an extent by the large volume of outside investment in railway and government securities, the vast majority of which bear fixed interest charges. Payments to outsiders on government and railway securities amount generally to about 50% of total payments, mainly interest charges.[1] This also explains the

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[1]See table IV, appendix, page ii.

preponderance of interest charges in returns on British investment, the bulk of which is in railway and government securities. The weight of dividend payments (and profits) in the United States returns may in part be attributed to the large United States direct investment in Canada.

An estimate of profits, losses and remittances to United States, by United States controlled companies in Canada has been made.[1] This does not cover more than half the companies existing at the time, nevertheless most of the important ones were included. A significant fact is that all profits were not remitted, large amounts being reinvested. Over the entire period 1926-1933, total profits of firms considered were about $660 million, of which $348 million was remitted, leaving over $312 million to be reinvested.[2] Similar information about Canadian companies in the United States is also given. During the depression year 1932, a net loss on account of the operations of Canadian firms in the United States was recorded, principally due to the large railway deficits.[3]

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[1] Marshall, Southard and Taylor, "Canadian-American Industry" Chapter VI. See also table 26, page 81.

[2] Deficits have not been deducted from total profits to obtain net profits of the American firms concerned, as these deficits must be written off and disappear. They create a diminution in total direct investment, but they cannot be included as a minus service charge. They do not affect the flow of capital except in a secondary way, e.g. causing further investment to make up for losses, or repatriation of the remaining capital. This assumes that profit-making firms and deficit firms are two separate and distinct categories. This is hardly the case as is illustrated in the larger number of firms showing losses and the smaller number showing profits 1930-1933. In the case of these firms a net balance between profits and deficits must be taken. Of the $99 million in losses over this period about $50 million should be balanced against profits, leaving about $260 million for reinvestment in Canada as a result of branch plant operations.

[3] Table 27, page 81.

Table 26

PROFITS, LOSSES AND REMITTANCES TO UNITED STATES BRANCH AND SUBSIDIARY COMPANIES IN CANADA (1926-1933)

(millions of dollars) Calendar years

		PROFITS		DEFICITS			REMITTANCES to U.S.	
Year	No. of branches existing each yr.	No. of firms known having profits	Total profits	No. of firms known having deficits	No. of firms giving amt. of def.	Amt. of def.	No. of firms	Amt.
26-33		2,853	660.8	2,158	1,017	99.1	1,469	348.5
1926	950	334	69.8	151	50	2.2	152	35.9
1927	975	363	78.2	148	45	1.9	172	32.4
1928	1,000	403	118.7	150	44	4.3	197	41.5
1929	1,050	423	134.8	171	57	2.4	195	46.9
1930	1,100	397	89.9	254	105	7.9	211	71.0
1931	1,150	333	64.9	376	198	22.1	204	57.0
1932	1,177	384	47.1	463	265	38.4	168	30.5
1933	1,200	316	57.3	445	253	19.5	170	33.0

Source: Taken from "Canadian-American Industry", page 245.

Table 27

SUMMARY OF INCOME AND DEFICITS OF CANADIAN OWNED COMPANIES IN UNITED STATES

Cal. year	No. of firms	Net income	Average income	No. of firms	Deficit	Average deficit
		$	$		$	$
1926	66	6,743,041	102,167	34	1,586,900	46,673
1929	120	22,164,438	184,704	48	5,740,263	119,589
1932	53	4,382,636	82,691	97	22,197,928	228,845

Source: Taken from "Canadian-American Industry", page 251.

Canada's position may now be summarized. Despite considerable and growing capital investments abroad she is a heavy debtor nation. British and United States financial interests hold a heavy stake in the Canadian capital structure, large slices of railway and government security holdings being outstanding. The American investment is more diversified than the British, and Americans also have direct control over many industrial plants operating in Canada. As a result of this position, heavy annual interest and dividend payments must be made outside Canada. Governmental policy has acknowledged this by avoiding exchange depreciation and internal inflation as far as possible. The maintenance of an active trade balance is an additional difficulty. "While Canada has built up a strong foreign exchange position it has done so at the expense of internal solvency, especially in the areas dependent upon export trade where both municipal and provincial finances have been wholly dependent on federal grants and loans. Moreover, the Canadian position is more complex than that of any other young debtor owing to the great diversification of industry (an indication that Canada is not so young after all), the dependence upon European policies with respect to wheat, reliance upon the unstable United States market for forest, mineral and animal products, the extensive publicly-owned transport system and the unique financial relations with New York and London."[1]

The day of public offerings of large capital issues is apparently over. "Formal flotation of securities has been a

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[1] D.C. MacGregor, "The Problem of Public Debt in Canada", (Canadian Journal of Economics and Political Science).

characteristic feature of Canadian external financing although it has latterly been accompanied by an international trading market in Canadian securities and by an inflow of funds for direct investment in Canadian enterprises."[1] There is no reason to suppose that direct investment will increase very appreciably in the future. Indeed, it appears likely that in the future external financing will be confined to the launching of individual enterprises, and stock market transactions. "It is probable that capital imports by Canada are entirely a thing of the past. It is not likely that Canada will in the calculable future become, from a world point of view, a significantly large exporter of capital, but, assuming the restoration of a reasonable degree of prosperity and the continuance of some approximation to an international capitalistic economy, Canadian industrial and investment interest abroad will expand considerably and will become an increasingly important factor in the Canadian economy. Perhaps the most important economic result of such a development will be an increased flexibility in the Canadian balance of international payments and hence a greater flexibility of the whole financial and monetary mechanism in Canada. And that, in the experience of the years 1929 to 1935, is a consummation devoutly to be wished."[2]

This will greatly facilitate prospective efforts to control capital movements. A measure of control over capital movements is generally admitted to be necessary. The issue really centres about the question of when foreign investment is advisable.

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[1] J.C. Elliott, "Importation of Capital into Canada", ("The Canadian Economy and Its Problems," Part II, Chapter 3, Innis & Plumptre, Eds., page 223.)

[2] "Canadian-American Industry", page 295.

Does foreign investment result in a national economic advantage? This can only be judged by two fundamental criteria, (1) the productivity of the imported capital, (2) possibilities of repayment. If as a result of outside investment domestic productivity is increased, and it is possible to pay for the loan by means of increased exports, no criticism can be offered. However, indiscriminate borrowings from abroad can easily increase international financial burdens. Capital imports which do not result in increased productivity place a burden of service charges and subsequent repayment on the economy, the effect of which is similar to unilateral transfers such as reparations. In addition there is the problem of transfer. Will the increased productivity come in those branches of industry from which repayment can be made by an export of services or goods? Can an active balance of trade be maintained?

Control of capital imports could be attempted by a control board such as suggested by Mr. Courtland J. Elliott.[1] He outlines the points at which control should be excercised:

1) The volume and source of foreign borrowing, borrowing only when there is a national advantage and the loan will be self-sustaining and stimulate export trade. (Borrowing in the direction of commodity sales so that repayment may be made in terms of the original contract with the least possible strain, is also worth considering).

2) The banking implications - maintenance of adequate gold and foreign exchange reserves on the one hand, and such

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[1]Part II, Chapter 3, "<u>The Canadian Economy and Its Problems</u>" (Innis & Plumptre, Eds.).

central bank restrictions on the other, as will restrain the undue creation of domestic bank credit.

3) The determination of domestic production and export trade measures as will facilitate the ultimate repayment of foreign borrowings in goods and services.

As can be seen, the field is widening beyond a simple control of foreign issues. It goes hand in hand with the wider considerations of the balance-of-payments and the internal economic structure. (The same considerations apply to Canadian investment abroad). The actual machinery for controlling foreign investment could probably best be vested in a national investment board, which would excercise control over all the fields of national investment, including foreign investments.[1] This board would work hand in hand with a central bank determining financial policy. Even though control over domestic investment such as is assumed above were not envisaged, the aspects previously outlined peculiar to foreign investment, make some form of control in this field imperative. The effects of outside investment go far beyond the individual investor or enterprise concerned, they react on all international trade and transactions, and in the case of a country like Canada which is subject to severe fluctuations in income and international trade, form an element of rigidity which is a severe impediment to necessary adjustments.

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[1]Such as suggested by J.M. Keynes, Arthur Salter and others.

CHAPTER V

The Compilation of the Balance-of-Payments.

"No official data on international commercial or financial transactions are available which do not at least theoretically require adjustment for balance-of-payments purposes."[1] Balance-of-payments estimates are not derived from simple and straightforward statistical material. Most figures must be adjusted before they are in consistency with the concept of a balance-of-payments statement. Again, many of the figures given are derived from indirect estimates. Hence, before a balance-of-payments statement can be properly understood and interpreted, the student of such matters must possess a grasp of the way in which the statement has been compiled,and the meaning and reliability which may be attributed to the various items. This is further made necessary by divergences in the statistical handling of the various national balance-of-payments statements.

Accordingly, this chapter undertakes a survey of the compilation of the Canadian balance-of-payments statement. The various items concerned are dealt with separately under their respective headings. An explanation of the methods employed in the three separate estimates used here to cover the entire period is also given, although attention is directed chiefly to the more recent and more complete estimates of the Dominion Bureau of Statistics.

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[1]A.E. Taylor, "Statistical Methods in Balance-of-Payments Estimates", (American Statistical Association Journal) March, 1937.

Table 28

CANADA'S BALANCE OF INTERNATIONAL PAYMENTS (1900-1936)

I. CURRENT ACCOUNT

Plus : : Minus

(millions of dollars) Calendar years

Year	Merchandise Exp.	Imp.	Bal.	Gold Coin & Bull. Exp.	Imp.	Bal.	Freight Rcts.	Pymts.	Bal.
1900	181.2	181.6	.4	3.7	7.7	4.0	3.6	9.2	5.6
1901	199.5	187.8	11.7	5.7	4.9	.8	4.0	9.6	5.6
1902	215.3	206.8	8.5	.6	6.0	5.4	4.3	9.9	5.6
1903	226.5	253.9	27.4	.3	11.4	11.1	4.5	10.8	6.3
1904	195.6	246.4	50.8	2.5	10.4	7.9	3.9	11.4	7.5
1905	221.6	262.1	40.5	7.5	7.1	.4	4.5	12.6	8.1
1906	252.3	309.1	56.8	15.4	20.5	5.1	5.1	14.6	9.5
1907	252.6	369.6	117.0	18.7	22.9	4.2	5.1	15.5	10.4
1908	264.0	286.8	22.8	4.1	25.8	21.7	5.3	14.1	8.8
1909	287.3	353.7	66.4	1.4	8.2	6.8	5.8	15.4	9.6
1910	294.6	436.7	142.1	2.0	13.7	11.7	5.9	18.8	12.9
1911	295.9	501.6	205.7	5.7	32.6	26.9	5.9	23.1	17.2
1912	361.9	640.2	278.3	13.8	11.0	2.8	7.3	28.5	21.2
1913	458.8	664.1	205.3	12.6	30.1	17.5	9.2	28.6	19.4
1914	425.5	512.3	86.8	..	..	7.7	41.1	80.2	39.1
1915	650.2	466.0	184.2	..	..	31.2	70.7	101.0	30.3
1916	1,109.4	780.0	329.4	..	..	6.8	91.7	145.5	53.8
1917	1,591.1	1,023.6	567.6	..	..	16.9	84.1	139.0	54.9
1918	1,239.4	930.7	308.7	..	..	6.0	83.8	144.1	60.3
1919	1,286.8	952.1	334.7	..	..	8.9	86.9	125.6	38.7
1920	1,291.8	1,342.7	50.9	..	..	30.4	114.4	170.1	55.7
1921	808.0	792.9	15.1	..	..	39.5	84.3	116.5	32.2
1922	888.1	747.5	140.6	..	..	50.0	78.5	94.3	15.8
1923	1,016.5	888.7	127.8	..	..	67.8	89.2	121.4	32.2
1924	1,061.0	793.2	267.8	..	..	21.3	83.0	99.1	16.1
1925	1,272.6	875.7	396.9	..	..	11.6	86.7	106.4	19.7
1926	1,266.1	990.5	275.6	77.1	45.6	31.5	96.4	105.9	9.5
1927	1,222.4	1,083.5	138.9	54.9	29.4	25.5	96.8	109.0	12.2
1928	1,355.4	1,224.4	131.0	115.5	26.3	89.2	95.9	115.3	19.4
1929	1,169.3	1,300.6	131.3	75.6	1.1	74.5	91.3	130.4	39.1
1930	874.6	996.7	122.1	40.3	37.6	2.7	70.3	102.5	32.2
1931	593.7	611.1	17.4	90.1	..	90.1	54.1	78.7	24.6
1932	492.4	418.7	73.7	73.1	..	73.1	38.0	65.9	27.9
1933	532.3	385.7	146.6	87.8	..	87.8	43.7	65.8	22.1
1934	652.9	504.8	148.1	109.6	..	109.6	51.4	79.3	27.9
1935	735.6	542.9	192.7	116.7	..	116.7	68.2	82.3	14.1
1936	947.9	625.7	322.2	132.0	1.0	131.0	80.2	98.0	17.8

Sources: 1900-1913 J. Viner "Canada's Balance of International Indebtedness"

1914-1925 F. Knox; Supplement to "Canadian-American Industry"

1926-1936 "The Canadian Balance of International Payments, 1926-1936" (Dominion Bureau of Statistics Bulletin)

Table 28

CANADA'S BALANCE OF INTERNATIONAL PAYMENTS (1900-1936)

I. CURRENT ACCOUNT.

Plus : : Minus

(millions of dollars) Calendar years

Year	Tourists			Int. & Divds.			Other Small Items'			Total Cur.Acct.
	Rcts.	Pymts.	Bal.	Rcts.	Pymts.	Bal.	Rcts.	Pymts.	Bal.	Balance
1900	7.1	5.9	1.2	4.0	36.0	32.0	10.9	6.6	4.3	36.5
1901	8.0	6.4	1.6	3.9	37.4	33.5	13.0	9.4	3.6	21.4
1902	11.0	7.5	3.5	5.0	39.4	34.4	22.1	16.2	5.9	27.5
1903	10.5	7.4	3.1	5.2	40.7	35.5	26.2	18.2	8.0	69.2
1904	12.8	8.9	3.9	4.5	43.0	38.5	25.5	15.7	9.8	91.0
1905	13.3	11.4	1.9	5.3	47.4	42.1	33.5	28.1	5.4	83.0
1906	16.8	15.4	1.4	6.0	51.7	45.7	38.7	34.7	4.0	111.7
1907	16.2	15.8	0.4	5.5	56.6	51.1	43.6	44.0	0.4	182.7
1908	19.2	18.1	1.1	4.6	75.9	71.3	40.7	48.9	8.2	131.7
1909	19.6	19.6	...	8.3	83.9	75.6	49.4	50.8	1.4	159.8
1910	24.7	25.0	0.3	9.6	92.1	82.5	57.2	58.5	1.3	250.8
1911	26.2	28.6	2.4	8.6	101.5	92.9	60.0	69.6	9.6	354.7
1912	29.4	33.0	3.6	8.7	117.5	108.8	57.8	84.0	26.2	435.3
1913	30.5	37.2	6.7	8.7	137.2	128.5	55.9	92.7	36.8	414.2
1914	34.8	41.8	7.0	16.7	178.0	161.3	32.1	26.2	5.9	280.6
1915	37.2	29.2	8.0	13.1	174.7	161.6	20.3	17.0	3.3	27.6
1916	45.8	29.3	16.5	23.7	193.3	169.6	22.8	17.3	5.5	121.2
1917	55.1	31.5	23.6	28.3	208.0	179.7	26.6	26.3	0.3	339.9
1918	66.8	34.7	32.1	32.4	217.2	184.8	24.8	29.8	5.0	96.7
1919	75.9	52.4	23.5	39.6	221.5	181.9	35.1	26.9	8.2	154.7
1920	91.4	62.5	28.9	46.8	231.4	184.6	45.5	29.4	16.1	215.8
1921	98.2	57.5	40.7	47.3	252.3	205.0	40.4	33.7	6.7	135.2
1922	110.5	56.8	53.7	40.0	249.9	209.0	38.4	26.8	11.6	69.8
1923	130.7	61.8	68.9	40.5	266.3	225.8	46.1	18.3	27.8	34.3
1924	149.4	68.3	81.1	40.2	268.9	228.7	48.3	23.5	24.8	107.6
1925	170.4	69.7	100.7	40.2	270.7	230.5	53.5	39.4	14.1	249.9
1926	201.2	98.7	102.5	39.0	240.0	201.0	72.0	82.0	10.0	189.1
1927	238.5	108.7	129.8	46.5	257.3	210.8	74.8	82.8	8.0	63.2
1928	275.2	107.5	167.7	52.9	273.9	221.0	67.2	83.0	15.8	131.7
1929	309.4	121.6	187.8	61.7	321.8	260.1	59.3	86.9	27.6	195.8
1930	279.2	100.4	178.8	59.5	348.1	288.6	51.3	76.4	25.1	286.5
1931	250.8	76.4	174.4	50.3	330.1	279.8	42.5	63.5	21.0	78.3
1932	212.4	57.4	155.0	39.4	301.2	261.8	37.2	71.6	34.4	22.3
1933	117.1	50.9	66.2	39.0	263.3	224.3	24.2	58.4	34.2	20.0
1934	146.0	63.6	82.4	55.4	267.0	211.6	20.8	46.6	25.8	74.8
1935	214.8	91.6	123.2	62.0	270.6	208.6	20.1	49.1	29.0	180.9
1936	255.8	99.8	156.0	76.2	310.0	233.8	21.7	55.7	34.0	323.6

' includes sundry items and insurance (1900-1925). For period (1926-1936) see table

Sources: Same as preceding page.

Table 28

CANADA'S BALANCE OF INTERNATIONAL PAYMENTS
(1900-1936)

Plus : ! Minus

(millions of dollars) Calendar years

II. CAPITAL ACCOUNT

Year	Imports	Exports	Balance	Bal.Curr.Acct.	Errors & Omissions
1900	31.7	2.9	34.6	36.5	1.9
1901	37.2	28.7	8.5	21.4	12.0
1902	42.3	3.3	39.0	27.5	11.5
1903	54.7	16.7	71.4	69.2	2.2
1904	61.9	21.2	40.7	91.0	50.3
1905	112.6	15.8	96.8	83.0	13.8
1906	105.3	12.5	117.8	111.7	6.1
1907	95.1	21.8	116.9	182.7	65.8
1908	222.1	92.5	129.6	131.7	2.1
1909	253.4	33.6	219.8	159.8	60.0
1910	313.2	25.9	339.1	250.8	88.3
1911	348.4	3.5	344.9	354.7	9.8
1912	321.1	.2	321.3	435.3	114.0
1913	546.7	18.8	527.9	414.2	113.7
1914	349.8	16.5	333.3	280.6	52.7
1915	215.3	72.5	287.8	27.6	260.2
1916	296.9	211.5	85.4	121.2	206.6
1917	168.8	228.0	59.2	339.9	280.7
1918	28.7	150.1	121.4	96.7	24.7
1919	102.9	22.0	80.9	154.7	235.6
1920	261.3	47.7	309.0	215.8	93.2
1921	224.4	102.6	327.0	135.2	191.8
1922	316.0	26.1	342.1	69.8	272.3
1923	210.9	11.0	199.9	34.3	234.2
1924	255.7	50.7	205.0	107.6	312.6
1925	84.9	118.5	33.6	249.9	216.3
1926	247.6	230.8	16.8	189.1	205.9
1927	364.8	369.0	4.2	63.2	59.0
1928	326.0	408.0	82.0	131.7	49.7
1929	419.9	266.0	153.9	195.8	41.9
1930	450.7	135.4	315.3	286.5	28.8
1931	286.3	239.2	47.1	78.3	31.2
1932	155.4	166.8	11.4	22.3	33.7
1933	470.2	496.7	26.5	20.0	6.5
1934	459.2	575.0	115.8	74.8	41.0
1935	435.0	588.5	153.5	180.9	27.4
1936	550.2	803.9	253.7	323.6	69.9

Sources: 1900-1913 J. Viner "Canada's Balance of International Indebtedness"
1914-1926 F. Knox; Supplement to "Canadian-American Industry".
1927-1936 "The Canadian Balance of International Payments 1926-1936" (Dominion Bureau of Statistics Bulletin)

Merchandise

The largest volume of international transactions undoubtedly occur on merchandise account (commodity trade). This, of course, need not have any special significance on the balance-of-payments except insofar as the balance of commodity trade is affected. The value of imports and exports of merchandise for the calendar years 1900-1936 are given in the first two columns[1] of table 28.[2] These figures differ from the commodity trade figures as given in the Canada Year Book and Trade of Canada in two respects. First, these are calendar year figures, based on a year ending December 31st not fiscal year figures ending March 31st, as given in most D.B.S. trade publications. Viner's figures, and those for the earlier years in Knox's estimate, were obtained by adjusting fiscal year data to calendar years. After 1919, a direct calculation of Canada's commodity trade by calendar years is available.[3]

Secondly, these figures are adjusted for balance-of-payments purposes.[4] Canadian import statistics include all goods "entered for consumption", merchandise which has passed through the customs and into the hands of the importer. They do not include goods in transit or in bond. Imports are valued at fair market value in the country whence exported at point of original shipment (invoice price). Again, under certain conditions, commodities may be declared to have an arbitrary value by virtue of certain dumping regulations. Exports are valued f.o.b. point of original shipment

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[1]In references to column numbers in this chapter, the first column of each page of tables (the date column) is not included.
[2]Page 87.
[3]Dominion Bureau of Statistics.
[4]See table 29, page 91.

Table 29

ADJUSTMENTS ON MERCHANDISE ACCOUNT

(millions of dollars) Calendar years.

	1928		1932		1936	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
-Recorded Merchandise exports & imports..	1,376.8	1,222.3	502.8	452.6	957.4	635.2
-Unrecorded imports of ships..	...	21.2	...	1.0	...	0.3
	1,376.8	1,243.5	502.8	453.6	957.4	635.5
-Deductions for settlers' effects & other non-commercial items...(1)	-10.9	-21.4	-6.5	-14.0	-3.6	-9.1
-Correction for over-valuation and under-valuation..(2)	...	...	...	-22.0	...	-1.7
-Minus gold-bearing quartz from exports & plus silver and other coins from imports..	-10.5	2.3	-3.9	1.1	-5.9	1.0
-Adjusted totals	1,355.4	1,224.4	492.4	418.7	947.9	625.7

(1) Includes such items as:
Animals & articles for exhibition purposes.
Settlers' effects.
Articles to be ex-warehoused for ships' stores.
Medals of gold, silver or copper won in competition.
Advertising chromos, pamphlets, showcards, etc.
Cinematograph films.
Casual donations from abroad.
Articles presented from abroad.
Donations of clothing, books, etc., for charitable purposes.
Paintings & pastels of Canadians temporarily residing abroad.

(2) In this case where merchandise has been arbitrarily valued for customs duty purposes, the values given in the customs statistics do not represent the amount payable abroad, and therefore, this adjustment is necessary.

Source: "The Canadian Balance of International Payments 1926-1936", (Dominion Bureau of Statistics Bulletin).

hence, in neither case do transportation charges enter into merchandise valuation.

Both import and export statistics include certain items of a non-commercial nature involving no transfer of funds, e.g. settlers effects, free advertising materials, donations and the like, and which do not set up any corresponding claims. Allowance must also be made for animals imported and exported for exhibition purposes which are recorded in the trade figures. The other large item which must be allowed for is the unrecorded import of ships, as all vessels used in the foreign trade, whether produced in the United Kingdom or elsewhere, old or new, are not entered through the Canadian customs. (This in many instances involves large amounts, e.g. the C.P.R. lines). The third column in table 28[1] shows the adjusted balance of Canadian commodity trade, 1900-1936.

Gold[2]

Gold in the form of bullion, bars and coin is shown separately in the Canadian customs statistics. In the case of both exports and imports it has been found that unrecorded transactions have taken place. For this reason, the D.B.S. makes a special calculation of the movement of gold and subsidiary coin in order to account for unrecorded imports and exports. This is done by comparing total gold holdings at the end of the year with gold holdings at the beginning of the year, plus accretions in the form of recorded imports and gold received at the mint, less exports of gold coin and bullion and an estimated amount used in the arts.

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[1]Table 28, page 87.

[2]Table 28, page 87, columns 4, 5 and 6.

The difference represents the unrecorded movement of gold. Again, the trade returns until 1934 and during the early part of that year, valued gold at $20.67 an ounce. Since it frequently sold at a premium the figures have been changed to make them agree with the current Canadian price.

Viner made use of a similar method to account for unrecorded movements of gold. Owing to the unreliability of customs returns during and after the war years, as a result of the inclusion of shipments of gold to and from Canada on account of the Bank of England, Knox has not used them at all. He has been content to estimate the net balances of gold movements over the period "with a method similar to that used by Viner."[1]

Freight[2]

The statistics of Canadian commodity trade do not include freight charges, hence an independent estimate of freight charges must be made for inclusion in balance-of-payments figures as one of the 'invisible' items. Without going into the detailed method of estimation, which is too involved to be presented here, the D.B.S. calculates freight payments and receipts in the following main categories:[3]

Freight payments made by Canada.

(a) Freight earned by United States railroads carrying export goods to the Canadian boundary. This item is

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[1] F. Knox, Excursus in "Canadian-American Industry", page 319.

[2] Table 28, page 87, columns 7,8, and 9.

[3] Adapted from agenda on "Balance of International Payments and Capital Movements", prepared for the Conference of British Commonwealth Statisticians, 1935. (D.B.S.)

easily the most important of the 'invisible' freight calculations, by reason of the large percentage of Canada's imports which originate in the United States.

(b) Freight earned by British and foreign vessels carrying Canadian imports from overseas.

(c) Ocean freight paid on imports coming into Canada via the United States. Railroad freight expenses in the United States on these imports, are of course, already included under (a).

<u>Freight receipts by Canada</u>.

(a) Freight earned by Canadian railroads, etc., carrying exports to the ports or boundary.

(b) Freight earned by Canadian vessels carrying exports overseas.

(c) Freight earned by Canadian railways on the transit traffic, i.e. that which is received from and delivered to foreign connections.

Canada has an average debit balance on account of freight payments of about 20 to 30 million dollars annually. It is also interesting to note that whereas the annual freight balances have been subject to relatively large fluctuations, due mainly to changes in the total volume of trade, they have consistently been a debit item from 1900 to today. The method employed by Viner in arriving at his estimate of freight charges is too detailed for description here.[1] He estimates freight charges

[1] J. Viner, op. cit. page 64 ff.

very largely as an ad valorem percentage of imports and exports. Professor Knox, in his estimate for 1914-1926, has used methods similar to those used by the Dominion Bureau of Statistics for the years 1920-1926; for the years 1914-1919 transportation statistics did not allow him to make more than rough estimates.[1]

Tourist Traffic[2].

It is impossible to estimate tourist expenditures and receipts directly. Accordingly, returns from tourist traffic are estimated indirectly, based on average expenditures for certain classes of tourists and available statistics of tourist movements. The tourist traffic may be subdivided into three classes:

(a) Tourists to and from overseas countries.

(b) Tourists travelling by automobile to and from United States.

(c) Tourists travelling to and from the United States by rail and steamer.

(a) Statistics of the movement of 'tourists' to and from overseas countries are derived from publications of the Department of Immigration. The following is the estimate used of average expenditure for various classes of tourists.

Class of steamship passage	Amount spent by each tourist To Canada $	From Canada $
Saloon or first class	1,100	1,002
Cabin	850	674
Other (tourist, 3rd, etc.)	600	400

(b) The movement of automobiles for touring purposes is obtained from Department of National Revenue data on automobiles entering

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[1]F. Knox, op. cit, page 320.

[2]Table 28, page 88, columns 1, 2 and 3.

and leaving Canada. As a result of recent questionnaires, handled by the United States Department of Commerce and the D.B.S., the following average rates of expenditure have been adopted:

United States Tourist Cars -	
24 hour class.......	$ 9.23
60 day "	72.32
6 month "	422.22
Canadian Tourist Cars -	$63.53

(c) This is based on statistics obtained from principal railway and steamship companies as to the number of passengers ticketed from the United States to Canadian points and vice versa. Immigration movements, based on Department of Immigration figures are deducted from this. The remainder is divided into United States tourists to Canada and Canadian returning tourists, in the proportion of automobile tourists (making allowance for the difference in ratio of population to passenger cars in the two countries). Canadians travelling to the United States by rail and steamship is estimated by a similar procedure. These are then applied to estimated average rates of expenditure, which vary in proportion to the increase or decline of expenditure by motor tourists.

The above is a summary of the present D.B.S. method of estimating receipts and payments from tourist traffic. According to Knox, his estimates for the years since 1914 "were made by the use of estimates obtained in recent years, with such adjustments as seemed appropriate. They become increasingly unreliable therefore for the earlier years and are little more than guesses for the war years."[1] Viner's figures of tourist expenditure in Canada for

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[1]Op. cit., page 321.

1900-1913, are compiled by allowing $1,000 as average expenditure of saloon tourists, and $300 as average expenditure of steerage tourists, arriving at ocean ports.[1] He places expenditure of American tourists at $5,000,000 in 1900, gradually increasing to $20,000,000 in 1913. A similar procedure is employed for expenditures of Canadian tourists abroad.

Interest and Dividends.

The Dominion Bureau of Statistics estimates interest and dividend payments from the following data.

1. Interest payments.

The Dominion Bureau of Statistics keeps a record of all bonds taken in whole or in part abroad at the time of their original distribution, and the amount of interest paid abroad is calculated on the basis of this record. Special inquiries have been undertaken to cover defaults in interest payments which have taken place in recent depression years. The difficulty here is, of course, that the above takes into consideration only the original distribution of the bonds, making no allowance for repatriation and sales.

2. Dividend payments.

Dividend payments outside Canada are shown separately in the returns of total dividends paid by Canadian corporations reported by them to the income tax branch of the Department of National Revenue. Allowance must also be made for certain companies that have common shares outstanding carrying bearer coupons, of which only a small portion are registered. The calculation of the proportion of these coupons paid abroad is based on an estimate of

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[1] Op. cit., pages 83 ff.

the geographical distribution of the common shares of the firms concerned.

The manner in which interest and dividend receipts from outside investment are compiled by the Dominion Bureau of Statistics, can best be described by discussing each group of items concerned separately.

1. Canadian government bank balances abroad - the interest receipts on this item appear in the public accounts.
2. Net assets of Canadian banks abroad - this is estimated based on an average rate for (a) non-Canadian securities (b) all other assets (which has been shown to approximate the call loan renewal rate at New York).
3. Foreign securities held in Canada by Canadian insurance companies - the receipts on this item are estimated by using the average rate earned by Canadian Insurance companies on their investments.
4. Canadian direct investment,-
5. Miscellaneous investment,- in the case of both of these, very inadequate information is available and a very rough and arbitrary estimate is made on the basis of available information.

The above outlines the manner in which the Dominion Bureau of Statistics estimates of interest and dividend receipts and payments are calculated. For the years 1914-1926 Knox has used a somewhat similar procedure.[1] Viner, however, estimates interest (& dividend)

[1] Knox, op. cit., page 311.

payments indirectly based on an index of the average rate of interest yielded by investments in Canada (4.03 to 4.45%, 1900-1913) for payments on capital invested subsequent to January 1st, 1900.[1] Returns on outside investments made prior to 1900 are estimated at a rate of 3% until 1907, and 4% after 1907.[2] Canadian receipts from investments abroad are calculated on the basis of an estimated average return of 4% on total investment.[3]

Sundry Items.

The remaining items on current account are grouped together under 'other small items'. This includes all the remaining items in the balance-of-payments with the exception of capital items. The figures given here from Viner, group his data for 'capital imported and exported by migrants' and 'non-commercial items' (e.g. remittances abroad), and 'insurance', under this heading. He assumes that the other sundry items on current account, being mainly the sale and purchase of services by Canadians, will balance each other (e.g. diplomatic expenses, commercial travellers expenses, etc.).[4] For the years 1914-1926, Knox has added the expenditure of foreign governments in Canada and that of the Canadian government abroad for consular and similar services; religious and charitable remittances and motion picture royalties.

The recent D. B. S. statistics on the Canadian balance-of-payments give much more complete data. In addition to the items

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[1]Op. cit., pages 98 ff - see table XXVII

[2]Idem, page 99.

[3]Idem, page 91.

[4]Idem, page 87.

mentioned above they include advertising transactions; earnings of Canadian residents employed in the United States and United States residents employed in Canada; net payments for entertainment services, royalties not previous included and one or two other adjusting figures.[1]

Capital Items.[2]

Two methods can be employed in estimating the capital item in a balance-of-payments statement. The movement of capital may be estimated directly or indirectly. Assuming that all the debit and credit items in the balance-of-payments statement on current account were correct, the difference would represent the net import or export of capital. However, such accuracy in the individual items on current account is hardly attainable, and large errors and omissions creep in. It is therefore preferable that a direct estimation of the capital movement be made, any balances remaining being attributed to errors and omissions. Moreover, a direct estimate of capital movements is desirable inasmuch as it contains an itemized record of the items entering into the statement of capital movements. The chief drawback is the difficulty of calculating a direct estimate. However, new techniques and newly available information have made the task easier especially in recent years, and have resulted in far greater accuracy.

The figures of annual capital movements in the balance-of-payments statement do not agree with the annual changes in the volume of total foreign investment.[3] What may at first glance

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[1]See table 30, page 101.

[2]See table 28, page 89.

[3]See table V , appendix, page iii.

Table 30

BALANCES OF "OTHER ITEMS" ON CURRENT ACCOUNT (1926-1936)
CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Plus :: Minus

(millions of dollars) Calendar years.

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
-Immigrants Remittances...	15.4	16.6	18.6	19.0	16.8	9.9	8.9	8.7	9.2	8.7	10.9
-Govt. Expenditures & Receipts...	1.0	0.1	0.8	0.4	1.3	0.7	1.6	4.0	4.3	5.3	4.5
-Charitable & Missionary Contrib...	1.5	1.4	1.0	1.5	1.5	1.5	0.3	0.2	..	1.0	1.0
-Advertising Transactions...	1.4	0.3	1.2	1.3	1.3	2.0	2.0	1.5	0.5	0.3	0.4
-Motion Picture Earnings...	3.5	3.5	3.7	3.7	3.7	3.7	3.2	3.0	2.7	3.2	3.5
-Capital of Immigrants & Emigrants	1.1	0.7	2.6	1.8	2.2	1.7	1.0	0.6	1.7	1.4	1.4
-Earnings of Canadian Residents in U.S. & U.S. Res. Employed in Canada...	17.3	19.2	17.3	10.7	6.7	3.2	2.3	2.4	2.6	2.3	1.9
-Net Payments for Entertainment Services, Royalties, etc. not included above...	10.0	11.0	12.0	15.0	12.0	9.0	8.0	10.0	11.0	12.0	15.0
-Exports & Imports of Electric Energy*...	4.6	4.8	..	..	..	..	..	..	..	..	..
-Exchange,-London & N.Y. on Interest & Retirement Receipts & Payments‡	..	..	..	..	..	0.5	13.7	9.0	..	..	..
-Total	10.0	8.0	15.8	27.6	25.1	21.0	34.4	34.2	25.8	29.0	34.0

* Included with commodity trade since 1928.
‡ From 1934 on the adjustment for exchange is included in interest and retirement items.

Source: "Canadian Balance of International Payments 1926-1936" (Dominion Bureau of Statistics Bulletin) appear to be an unwarranted divergence, becomes clear when we consider the method by which the figures are estimated and what they are supposed to represent. The investment figures and the capital movement figures are based on two separate concepts. The capital movement figures show the net movement of capital for a period over the international boundary; while the capital investment figures consider the total amount of money that would be owing at any period of time, making allowance for changes in the value of investments, reinvestment of profits, defaults, etc., which would not appear in capital movement figures. Changes in capital investment cannot affect balance-of-payments except insofar as they affect the actual flow of capital across the international boundary, being expressed in a demand for exchange. The estimates of investment are for the purpose of showing the amount of capital indebtedness of governments and corporations on the best basis of present worth attainable. The figures attempt to show the amount that would be paid to outsiders if all government bonds were paid at par and if corporations could all be liquidated at present worth as shown by Census of Industry capital employed figures.

The above does not hold in the case of Viner's estimate of capital movements 1900-1913, as his capital movement and capital investment figures are both calculated from the same data. Viner's figures as given are based on a direct annual estimate of Canadian investment abroad[1] and of British and foreign investment in Canada[2]

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[1] J. Viner, "Canada's Balance of International Indebtedness 1900-1913" Table XXV page 94.

[2] Idem, table XLIV, page 139.

for the period concerned. These estimates are used to show the flow of capital to and from Canada. The volume of total British and foreign capital invested in Canada is calculated by assuming the total investment in 1899 to be $1,200 million, and adding the annual investment of outside capital. Similarly, the volume of Canadian investment abroad is arrived at by adding the annual investment to a total of $100 million in 1899. Accordingly, for the period covered by Viner's figures, the net annual increment of investment and the net annual flow of capital are identical.[1]

Professor Frank Knox's calculation of capital movements for the period 1914-1926 was drawn from figures of capital investment. "So far as possible, all changes in the amount of any given security held outside Canada was investigated to determine whether an export of capital was involved. A separate tabulation of the capital movement was made in this manner. The calculation of the direct investment is so rough that estimated yearly net change was set down as a capital import or export, without any attempt at further refinements. Short-term capital movements have been included only insofar as they took the form of the sale of Canadian treasury bills abroad."[2] His figures for the export of capital from Canada are calculated directly from changes in the amount of Canadian investment outside Canada.[3]

More detailed information about capital movements is available for the last decade, and an independent direct estimate of capital

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[1]See table V , appendix, page iii.

[2]F. Knox, Excursus in "Canadian-American Industry", pages 321-322.

[3]Table 28, page 89, column 2. Compare the net increment of Canadian investment abroad. Table V , appendix, page iii.

movements over the international boundary is compiled by the Dominion Bureau of Statistics. This gives a clearer picture, inasmuch as it measures the flow of funds over the international line for the period under review, rather than the net inflow and outflow for the period - which, while if accurate should give the same result, is a more indirect approach. Accordingly, the balance of capital movements is a true balance of international capital transactions requiring the movement of funds and necessitating the purchase of exchange. The figures for the years 1927-1936 inclusive are taken from the Dominion Bureau of Statistics bulletin on "The Canadian Balance of International Payments 1926-1936". A summary of these figures under the main items is contained in table 28.[1]

The Dominion Bureau of Statistics has tried to obtain a record of all capital movements under the following headings:

1. <u>New Issues</u>: this is the net par figure, less commissions and discounts. It is based on records of the annual amount of new bond issues are sold abroad each year, records of which, giving geographical distribution are kept.
2. <u>Retirements</u>: this includes maturities, redemptions, and for the years 1927-1932 includes sinking fund repurchases (for later years this is included in "Purchases of outstanding securities"). These come from records of bond issues kept by the Dominion Bureau of Statistics, which are checked annually for maturities and retirements and the totals paid abroad estimated on a basis of the original distribution.

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[1]Page 89.

3. Purchase and Sale of Securities: for the years 1927-1932 inclusive, this was based on general information available. Since 1933, this has been the subject of a special monthly return, and through the co-operation of associations such as Investment Dealers, Canadian Bankers, Dominion Mortgage and Investment, the stock exchanges, etc., a very complete record is obtained.
4. Net Capital Transactions of Branch Plants: The Dominion Bureau of Statistics keeps a record of branch plants locating in the Dominion and they are the subject of special returns and occasional investigations. This item includes "the net movement of funds resulting from the operations of the branches, subsidiaries, etc., of British and foreign companies in Canada and the branches, subsidiaries, etc., of Canadian companies operating outside of Canada and the net movements of funds resulting from the international transactions of Canadian Trust companies. Although the more important current transactions of these concerns, such as dividends have been included in the current account, various small items of current transactions which are difficult to segregate remain in this item."[1]
5. Other Items: this includes the remaining smaller items: a) Canadian government credits received.
   b) Government receipts, reparations.

These are taken from the public accounts.

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[1]Dominion Bureau of Statistics, "The Canadian Balance of International Payments 1926-1936" (Bulletin).

c) Insurance transactions.

d) Change in estimated net assets of Canadian banks outside Canada.

Compiled from special returns by these companies.

CHAPTER VI

The Balance of International Payments

The balance of international payments has been defined as the statement of the accounts of a nation of all economic transactions of a revenue nature over the international boundary during a period of time.[1] This is more than a summation of the amount of foreign currency bought and sold within a period of time. It refers to the transactions which cause these purchases and sales of foreign exchange. Nor does the balance-of-payments refer to the total volume of claims outstanding at the moment; this is the balance-of-indebtedness, and measures the contingent liability, not the international economic transactions of a given period. Somewhere between these two extremes the balance-of-payments finds its level.

"To approach the problem with the aim of measuring the gross international flow of funds both inwards and outwards eliminates fictitious entries and makes the balance-of-payments statement more consistent as an estimation of the annual cash receipts and cash outgoings of a nation."[2] The balance-of-payments includes all economic international transactions involving payments and receipts. (Barter transactions are not included as they balance automatically). Both Viner's and Knox's estimates fail in part to achieve this as their capital account is based on net movements of capital, largely adapted from balance-of-indebtedness data. The recent estimate of the Dominion Bureau of Statistics comes closer to a realization

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[1]Chapter I, page 2.

[2]Agenda on "Balance of International Payments and Capital Movements", prepared for Conference of British Commonwealth Statisticians 1935. (Dominion Bureau of Statistics) page 72.

of this criterion.

The equivalence of a balance-of-payments statement has not been labored. It is fairly simple that a statement of payments and receipts between two parties (Canadian and foreigners) over a period of time must balance. This, of course, assumes a rational, hedonistic behaviour, in which for everything given, something equivalent is demanded in return. "The principle of the balance of international payments turns on a statement of equality between total values".[1] Total money values paid out must equal total money payments received, regardless of whether the adjustment is brought about by gold movements or fluctuating exchange rates. The equivalence of the balance-of-payments is ultimately expressed by the balance of monetary payments and receipts, or corresponding book debits and credits.

The classical view of the balance-of-payments was as follows: "With a background of rationalistic prudential psychology to start from the classical school stressed the individual character of each transaction in international trade, in which each of the parties, being ruled by egoistic motives, demanded a value equivalent in return for everything he imported or exported. From this they derived the further principle that all exports must tally in value with all imports and that relative price differences are the proximate cause of all international transactions. Adjustment of the necessary balance of international transactions to a commodity and service basis with a minimum of gold movements are effected,

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[1] Charles R. Whittesley, "Governmental Controls and the Theory of International Trade & Finance", (Quarterly Journal of Economics) November, 1936.

they explained, through preliminary gold movements, initiated by individuals in the pursuit of economic gain. The influence of gold movements on price levels, explained by the quantity theory of money, and of price levels on the profitability of export and import of commodities and services, always tended to bring about an even balance between commodity and service imports and exports. The absence of such equivalence, temporary or continued, was to be explained only as due to temporary ill-adjustments, to credit transactions, that is, loans and repayment of loans, and to non-commercial unilateral transactions not requiring an exchange of considerations, such as tributes, subsidies and gifts."[1] Whereas statistical progress now enables a more precise application of the balance-of-payments, the attitude sketched above is still generally true. Even though the individualistic psychological background is discarded, the essence of any international transaction is the exchange of some item for another of equal value, expressed in monetary terms. Again, exchange fluctuations or monetary restrictions may now be substituted for gold movements.

When considering a balance-of-payments, allowance must be made for a) accuracy (manner of compilation, errors and omissions)

b) changes occurring over a period of time.

c) the fact that items do not occur independently, nor do they necessarily influence one another directly.

The study of the Canadian balance-of-payments roughly divides itself into three periods, 1900-1914; 1914-1929; 1929-1936.

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[1] J. Viner, op. cit., pages 4-5.

A possible alternative grouping might class the mid period from 1920 to 1929. The similarity of these three groupings to the three separate estimates used to cover the period enables the linking of each of these estimates with a respective period, which has been followed as far as possible. This has the great advantage in many instances of hurdling the difficulties involved in reconciling divergences in the figures of the separate estimates. A clear picture of each period is thus made possible which can then be related to the other periods.

"From whatever source it has come, imported capital has been the dominant influence on Canadian economic development since 1900."[1] This statement can be challenged. It probably would be fairer to say 'a dominant influence'. Nevertheless, imported capital has been the dominant influence on the Canadian balance-of-payments since 1900. The key to the interpretation of the Canadian balance-of-payments lies in the capital movements, together with a consequent and analogous item on current account, interest and dividend payments.

The process of international investment is fundamentally simple if the machinery and problems of adjustment and transfer are omitted. An international loan of capital with a resultant international capital movement, if it is not a temporary fluctuation, will ultimately require a corresponding flow of commodities, gold or services. When one country borrows from another, it means that nationals of the borrowing country have received claims

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[1]F. Knox, op. cit., page 296.

or credits in the lending country, which can be expedited only by a movement of commodities, gold or services, from the lending to the borrowing country, either directly or indirectly.[1] The theoretical background of such a loan is the same as that behind any other loan or credit. The assumption is, that after the loan has been made, the capital (in tangible form) imported, an increase in the productive capacity and efficiency of the borrowing country will result, owing to direct imports of capital equipment, or imports (e.g. services, foodstuffs, or gold for credit expansion) leading indirectly to an expansion or an amelioration of existing facilities. Interest payments and eventual repayment are to be made out of this increased productivity, again necessitating an ultimate transfer in the shape of tangibles, merchandise, gold or services.

The cycle of capital borrowing may be divided into two stages. At first, there is the period of capital imports, when capital equipment or commodities indirectly contributing to the construction of capital goods are being imported and the productive machinery being established. This is a time when the balance-of-payments shows a heavy capital inflow, generally reflected in a large debit balance on merchandise account. During this period the service of the debt hitherto incurred may have to be met out of continued borrowings, inasmuch as the productive equipment is in the process of construction and has not as yet started functioning. In the second stage, the emphasis shifts from the loan itself and its

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[1]See below, pages 125-126.

transfer to the service of the loan and its gradual repayment. In this second period the pace is likely to slacken and be drawn out.

Cassel states that a capital export has three phases.[1]

1) the moment when the export takes place.
2) the period in which it remains abroad.
3) the moment it is repaid.

This undoubtedly describes the process in terms of an individual loan, but we have been more concerned above with a borrowing trend, a series of loans which follow on one another over a period of time prohibiting any clear cut division into the three phases given above. As will be seen later, three phases in the cycle of Canada's borrowings have been distinguished for this same reason:

a) the borrowing period
b) the transition period
c) the final period of readjustment

The span 1900-1914 roughly represents the first stage in the cycle of Canadian capital borrowing. A rapid expansion of capital equipment (chiefly transport) based on heavy importations of capital and a rapid increase in population, reaching its height about 1913, is the significant characteristic of the pre-war period. It was marked by large and rapidly growing debit balances on merchandise account and mounting interest and dividend payments abroad.[2] During this period the Canadian balance-of-payments was

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[1] G. Cassel, "Foreign Investment", page

[2] See table 31, page 113.

Table 31

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS
(1900-1913)

Net Receipts of Credits :: Net Payments or Debits

(millions of dollars) Calendar years

	1900	1901	1902	1903	1904	1905	1906	1907	1908	1909	1910	1911	1912	1913
CURRENT ACCOUNT: Visible Items:														
Merchandise..	0.4	11.7	8.5	27.4	50.8	40.5	56.8	117.0	22.8	66.4	142.1	205.7	278.3	205.3
Gold...	4.0	0.8	5.4	11.1	7.9	0.4	5.1	4.2	21.7	6.8	11.7	26.9	2.8	17.5
Invisible Items:														
Tourist trade..	1.2	1.6	3.5	3.1	3.9	1.9	1.4	0.4	1.1	..	0.3	2.4	3.6	6.7
Int. & Div...	32.0	33.5	34.4	35.5	38.5	42.1	45.7	51.1	71.3	75.6	82.5	92.9	108.8	128.5
Freight...	5.6	5.6	5.6	6.3	7.5	8.1	9.5	10.4	8.8	9.6	12.9	17.2	21.2	19.4
Miscellaneous..	4.3	3.6	5.9	8.0	9.8	5.4	4.0	0.4	8.2	1.4	1.3	9.6	26.2	36.8
Bal. on Current Acct..	36.5	21.4	27.5	69.2	91.0	83.0	111.7	182.7	131.7	159.8	250.8	354.7	435.3	414.2
CAPITAL ACCOUNT: Capital Imports..	31.7	37.2	42.3	54.7	61.9	112.6	105.3	95.1	222.1	253.4	313.2	348.4	321.1	546.7
Capital Exports..	2.9	28.7	3.3	16.7	21.2	15.8	12.5	21.8	92.5	33.6	25.9	3.5	0.2	18.8
Net Capital Movement..	34.6	8.5	39.0	71.4	40.7	96.8	117.8	116.9	129.6	219.8	339.1	344.9	321.3	527.9
Errors & Omissions..	1.9	12.9	11.5	2.2	50.3	13.8	6.1	65.8	2.1	60.0	88.3	9.8	114.0	113.7

Source: J. Viner "Canada's Balance of International Indebtedness 1900-1913"

Table 31

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS (1914-1926)

Net Receipts or Credits :: Net Payments or Debits

(Millions of dollars) Calendar years

	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926
CURRENT ACCOUNT: Visible Items:													
Merchandise..	86.8	184.2	329.4	567.5	308.7	334.7	50.9	15.1	140.6	127.8	267.8	396.9	275.6
Gold...	7.7	31.2	6.8	16.9	6.0	8.9	30.4	39.5	50.0	67.8	21.3	11.6	31.5
Invisible Items:													
Tourist trade..	7.0	8.0	16.5	23.6	32.1	23.5	28.9	40.7	53.7	68.9	81.1	100.7	102.5
Int. & Div...	161.3	161.6	169.6	179.7	184.8	181.9	184.6	205.0	209.9	225.8	228.7	230.5	201.0
Freight...	39.1	30.3	53.8	54.9	60.3	38.7	55.7	32.2	15.8	32.2	16.1	19.7	9.5
Miscellaneous..	5.9	3.3	5.5	0.3	5.0	8.2	16.1	6.7	11.6	27.8	24.8	14.1	10.0
Bal. on Current Acct...	280.6	27.6	121.2	339.9	96.7	154.7	215.8	135.2	69.8	34.3	107.6	249.9	189.1
CAPITAL ACCOUNT: Capital Imports..	349.8	215.3	296.9	168.8	28.7	102.9	261.3	224.4	316.0	210.9	255.7	84.9	247.6
Capital Exports..	16.5	72.5	211.5	228.0	150.1	22.0	47.7	102.6	26.1	11.0	50.7	118.5	230.8
Net Capital Movement..	333.3	287.8	85.4	59.2	121.4	80.9	309.0	327.0	342.1	199.9	205.0	33.6	16.8
Errors & Omissions	52.7	260.2	206.6	280.7	24.7	235.6	93.2	191.8	272.3	234.2	312.6	216.3	205.9

Sources: 1914-1925 F. Knox, Supplement in "Canadian-American Industry".
1926 - Current Account figures taken from "Canadian Balance of International Payments 1926-1936" (Dominion Bureau of Statistics publication)
Capital Account figures taken from F. Knox, Supplement in "Canadian-American Industry".

<u>Table 31</u>

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS (1927-1936)

Net Receipts or Credits;: Net Payments or Debits

(millions of dollars) Calendar years

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
CURRENT ACCOUNT: Visible Items:										
Merchandise..	138.9	131.0	131.3	122.1	17.4	73.7	146.6	148.1	192.7	322.2
Gold...	25.5	89.2	74.5	2.7	90.1	73.1	87.8	109.6	116.7	131.0
Invisible Items:										
Tourist trade..	129.8	167.7	187.8	178.8	174.4	155.0	66.2	82.4	123.2	156.0
Int. & Div...	210.8	221.0	260.1	288.6	279.8	261.8	224.3	211.6	208.6	233.8
Freight...	12.2	19.4	39.1	32.2	24.6	27.9	22.1	27.9	14.1	17.8
Miscellaneous..	8.0	15.8	27.6	25.1	21.0	34.4	34.2	25.8	29.0	34.0
Balance on Current Acct.	63.2	131.7	195.8	286.5	78.3	22.3	20.0	74.8	180.9	323.6
CAPITAL ACCOUNT:										
New Issues & Retirements...	140.6	7.3	132.6	290.3	9.3	1.0	26.1	58.0	154.4	163.9
Purchase & sale of securities..	184.0	188.0	105.0	13.0	24.0	16.0	51.0	8.9	71.0	7.8
Net capital transactions of int. branch plants...	27.6	18.1	15.0	22.9	1.2	31.1	74.3	50.8	52.2	74.2
Other	11.6	80.6	111.3	15.1	63.0	36.7	22.9	15.9	17.9	23.4
Net Capital Movement	4.2	82.0	153.9	315.3	47.1	11.4	26.5	115.8	153.5	253.7
Errors & Omissions	59.0	49.7	41.9	28.8	31.2	33.7	6.5	41.0	27.4	69.9

Includes insurance transactions; Can. gov. credits received; gov. receipts reparations; change in estimated net assets of Canadian banks abroad.

Source: "Canadian Balance of International Payments" (Dominion Bureau of Statistics Bulletin) largely adjusted to borrowings in Great Britain through triangular transactions with the United States. The British funds made available to Canadians through the flotation of loans in London were used to buy New York exchange which in turn was used to pay for increased imports from the United States.[1] The British balance-of-international payments was similarly adjusted by increased British exports to the United States, or in a more circuitous fashion, by increased British exports to South America and the Orient, which were in turn paid for by exports from these regions to America.[2]

With the advent of the Great War the influx of British capital, hitherto the chief source of Canadian borrowing, stopped. This was in part compensated by an increase in American loans.[3] During the later war years, the Canadian balance showed a net export of capital, despite large capital imports from the United States. This was accounted for by the repatriation of British held securities, loans and credits by Canada, chiefly to the British government, and other war-time exigency credits. In 'real' terms, it was reflected in the tremendous expansion of Canadian exports, made possible by the coming of age of the productive machinery established in the previous decade, resulting in a sudden reversal of the passive trade balance and substituting large active merchandise balances, reaching a peak of $567.5 million in 1917.[4]

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[1] See chart IV . The Canadian balance of trade with Great Britain was active even during the period of heaviest capital imports from Great Britain, 1904-1914.

[2] This triangular adjustment is still taking place. Whereas British funds were previously obtained through loans they are now obtained by a large active balance of trade with Great Britain.

[3] See note, page 49.

[4] Table 31, page 114.

The decade after the war may be called the transition period, in which Canada moved from the initial into the final phase of the loan cycle. On the one hand, an active merchandise balance is meeting interest and dividend payments and some debt retirement (actually very little of this is directed to debt retirement, much of the capital outflow representing Canadian foreign investments). On the other hand, the influx of capital still continues, chiefly from the United States. "Arterial highways, municipal improvements, commodious dwellings for our working and leisure hours, railways, stock speculation in New York and industry, especially power and paper, bloomed under the beneficent rays of borrowed capital."[1] The balance-of-payments figures show that the inflow and outflow of capital tended to balance each other during this period. Taking an indirect estimate of capital movements from the balance on current account, a net capital import of $616 million and a net export of $776 million is recorded from 1921-1929 inclusive; leaving a balance of $159 million representing the net capital outflow for this period which would be more than wiped out if the capital import for 1920, $215.8 million, were included.[2]

Another significant feature of the Canadian balance-of-payments noticeable in this second stage is its reaction to periods of depression. At times of world depression, the normal trend of the Canadian balance-of-payments is suddenly interrupted.

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[1] J.C.Elliott in "The Canadian Economy and Its Problems" (Innis & Plumptre, Eds.), Chapter III, page 225.

[2] Table 31, page 114. Knox's direct estimate of capital movements for this period is too unreliable for use here. See page

The vulnerability of the Canadian economy and especially the extreme susceptibility of the Canadian export trade to fluctuations in the world market hits the Canadian trade balance, and before an adjustment can be made, heavy and often forced loans are necessary to meet obligations on account of imports and interest and dividend payments. This was the case in 1920-1921, and again 1929-1932.

The balance-of-payments statement for recent years illustrates the final stage in the capital borrowing process in which the economy is adjusted to paying the debt service charges, and eventually the loan principal.[1] The statement features an active trade balance, with additional large credits on gold and tourist accounts, both of which have risen to a significant role during this period. These credits go in the main to meet payments on interest and dividends, and the comparatively smaller debits for freight and miscellaneous items. The balance remaining covers maturities and retirements, and Canadian investment abroad.[2]

It appears likely that Canada is on this final stage of the cycle to stay. Since the war inward movements of capital have been counterbalanced by increasing exports of Canadian capital, and with the drying up of the stream of international finance, it seems that large scale capital imports into Canada are a thing of the past. During this period, inward movements of capital have resulted from

[1]This does not mean that any tangible reduction in the volume of foreign investment in Canada can be expected in the near future.

[2]Table 31, page 115.

temporary disturbances in the visible items, which are in turn largely dependent on business conditions. In the future, the influx of capital will decline even more and Canada will probably become an exporter of capital on a modest scale.[1]

At the beginning of the twentieth century a conjuncture of favorable circumstances enabled an unprecedented capital expansion based on a hitherto unparalleled rate of capital imports.[2] The world as a whole exhibited a wave of business optimism, based largely on a cessation of the prolonged decline in prices, prospects of rising prices, and the increasing volume and variety of world trade. An abundance of capital for foreign investment was available in the world's money markets, especially London which was the center of Canadian borrowings at the time. Canada offered an excellent field for profitable investment. Her resources were vast and as yet unexploited; the uncovering of new timber and mining areas widened prospects of profitable investment; the opening up of the West created visions of a wheat empire; a spirited immigration policy led to a rapidly increasing population; new technical advances pointed the way to great economic achievements, and with all this came a spirit of expansion, a building of a new nation, an unbridled optimism and economic activity. Australia, Argentina and to a lesser extent South Africa, underwent a similar experience.

"In the earlier period it seems fair to say that while a

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[1]See page 83.

[2]Table 31, page 113.

conjuncture of favorable circumstances combined to initiate economic expansion, the central impulse was our large borrowings abroad. Directly or indirectly such borrowings led to an expansion of bank credit which could be financed by a rise in gold reserves imported from abroad. The servicing of the new debt necessitated a continued rise in our foreign means of payments. This means of payment might be obtained by increased exports or continued borrowing. Inasmuch as our expansion was largely in the nature of the creation of capital goods, our imports increased proportionately faster than our exports, with the result that we were under the necessity of maintaining a high level of foreign borrowing."[1]

The emphasis in this period was largely on the borrowing, the public flotation of large issues, chiefly government and railway securities, in London. Credit conditions were easy, obstacles to economic development were few - everything snowballed as it does in a period of rising prices and eager optimism. Total borrowings, 1900-1914, amounted to approximately $2,750 million, mounting gradually to a peak of $547 million in 1913. During this era the population of Canada increased some 45%.[2] The period was devoted to the building of a vast framework of capital equipment for Canadian industry. "Between 1900 and 1910 it is estimated that the equipment of the primary industries of

[1] J.C. Elliott, op. cit., pages 228, 230.

[2] Population of Canada 1900 - 5,301,000
1914 - 7,879,000
(Canada Year Book 1937).

agriculture, fishing and mining increased by $465 million whereas on construction and secondary industry (railways, canals, manufacturing, public works, etc.), an expenditure of at least $1,800 was made."[1]

This process is reflected in the balance-of-payments statement. Beginning in 1903, a heavy and growing debit balance on merchandise account appears, reaching a height of $278.3 million in 1912. In addition net annual interest and dividend payments to non-Canadians mounted from $16 million (1900) to $32 million (1914). These large debit items were met by the capital imports.

A debit balance varying from $5 to $25 million annually is shown on gold account. However, these gold movements are not to be considered as a balancing item. "Since the cash reserves of the banks closely represent the amount of monetary gold in Canada, it follows that gold movements into and out of Canada are directly dependent on the amount of the total demand liabilities of the banks, and are not directly dependent on the state of the international balance-of-payments."[2] Freight debits add to the total debit on current account, rising from $5.6 million in 1900, to 19.4 in 1913 and 39.1 in 1914. The balance on tourist account was relatively small. In the later years 1911-1913, miscellaneous items show a large debit due principally to the large amount of non-commercial remittances sent abroad from Canada, chiefly by recent immigrants.

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[1] J.C. Elliott, op. cit. page 225.

[2] J. Viner, op. cit., page 177.

An illuminating approach to the international transactions of this period can be made by considering a thesis proposed by Courtland J. Elliott.[1] It is Elliott's opinion that most of the Canadian capital imports during this period were made for the purpose of providing a base for internal credit expansion, that this could have been achieved without the tremendous influx of capital experience, avoiding the present burden of foreign debt. In his own words, the idea is summed up as follows: "Foreign borrowings, or foreign investment in Canada had the initial effect of increasing materially our supply of foreign credits. In course of time such credits were utilized to meet our increasing imports and interest payments, but initially, as reference to the net foreign assets of the Canadian banking system for 1908 and 1909 would show, they were a surplus foreign asset. I have not been able to come to any conclusion as to the outlet for the borrowing as between domestic and foreign purchases of goods but I think it is a fair assumption (due to the fact that less than 50% of our borrowings over the whole period entered Canada in the form of goods), that a goodly proportion of our foreign borrowing was required for domestic purchases.[2] Such a procedure led to an additional increase in demand deposits in Canada, (and indirectly to an additional increase in loans and time deposits) while the bulk of the borrowing remained for a time as a foreign asset of the banking system."[3] He believes that "given a determination

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[1] J.C. Elliott, "<u>Canadian Economy and Its Problems</u>" (Innis & Plumptre, Eds.), PartII, Chapter III.

[2] This makes no allowance for the fact that much of Canadian borrowing during this period was used to cover debits on interest and dividend account, and freight etc., which although it does not deny his proposition, cannot be used to substantiate it. The crux of the matter is probably the type of goods imported during this period.

[3] . . Elliott, op. cit., pages 227, 228.

to develop our country, and given a willingness on the part of the banking system to impart the initial impulse by rather free lending policies, it is possible, that with our domestic gold production, there was no particular reason why in 1900-1913, we could not have financed our development without recourse to British investors. Under pressure of necessity, we developed a domestic bond market, and financed heavy war expenditures in a way somewhat analogous to what I have in mind."[1]

This viewpoint is certainly appealing and worthy of further consideration. If Mr. Elliott is correct, Canada is today saddled with a burden of foreign debt and consequent service charges, which need not have been necessary. If a large part of Canadian borrowings were initially used to make domestic purchases or buy merchandise obtainable at home, these could just as easily have been financed at home, as there was no need of foreign means of payment. Here a criticism of Mr. Elliott's views may apply. "The capital imports were partly used to purchase from other countries consumable goods with which the Canadian workers, who were building railroads and elevators were fed and clothed. To have dispensed with imports of capital from abroad while at the same time building the railways and elevators, would have necessitated drawing people into the production of food and clothing in Canada. These people would have had to be withdrawn from the export industries."[2] This criticism probably applies - but it means only that the capital expansion could not have taken place at the same rapid pace.

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[1]Op. cit. page 228.

[2]D.C. MacGregor, in "The Canadian Economy and Its Problems" (Innis & Plumptre, Eds.), pages 242-243.

Table 32

OUTSIDE ASSETS OF CANADIAN BANKS
(1900-1913)

(millions of dollars) Calendar years

Year	I Outside capital borrowings	II Deposits*	III Gold reserves*	IV Net assets abroad*‡	V "Foreign loan" deposits (1)
1900	31.7	279.6	22.0	39.1	46.5
1901	37.2	316.7	26.9	59.5	71.0
1902	42.3	348.4	28.2	51.5	66.1
1903	54.7	382.3	34.4	36.4	46.8
1904	61.9	424.9	38.4	53.4	77.9
1905	112.6	476.5	47.5	63.7	85.7
1906	105.3	546.9	46.9	44.7	77.6
1907	95.1	579.3	54.2	20.4	55.1
1908	222.1	575.8	58.6	104.9	173.3
1909	253.4	690.0	82.9	129.3	218.2
1910	313.2	792.3	91.1	92.8	202.5
1911	348.4	873.7	101.5	86.3	213.7
1912	321.1	985.1	130.1	77.2	210.3
1913	546.7	993.4	132.4	84.7	251.8

* Average of twelve figures for the last day of each month. Gold reserves include gold held by banks and the Department of Finance.

‡ Excludes holdings of foreign securities which are not listed in the Canadian bank statements.

(1) As of December 31st of each year; deposit and note liabilities in Canada, including government deposits, minus current and call loans in Canada; computed from monthly bank returns in the Canada Gazette.

Sources: Columns I and V J. Viner, "Canada's Balance of International Indebtedness 1900-1913".
Columns II, III and IV J.C. Elliott, "The Canadian Economy and Its Problems" (Innes and Plumptre Eds.).

The question in a way hinges about the practices of the Canadian banks in relation to their foreign reserves and foreign borrowing. Viner explains the process as follows: "The fluctuations in the outside reserves of the Canadian banks operate to adjust the Canadian balance-of-payments to capital borrowings in the manner attributed to gold movements in the generally accepted explanation of the mechanism of international trade. A Canadian railway corporation, let us say, borrows $100 million in London. To make the hypothesis as simple as possible, assume that it wants to use the entire proceeds of the loan in making purchases and paying wages in Canada.[1] It will therefore apply to the London branch of a Canadian bank to transfer its London funds to Canada at the current rate of exchange. The Canadian bank will buy New York exchange with the sterling funds obtained from the railway and will establish a deposit for the corporation in Canada. So far, the situation is as follows: the bank has increased its deposit liabilities in Canada by $100 million, and its funds on New York by $100 million. To maintain its normal cash reserve ratio, which we will assume to be 10%, the bank will import from New York $10 million gold, using its New York funds to obtain the gold. The remaining $90 million it will lend on call at New York.

The increase in Canadian bank deposits, unaccompanied by an increase in the quantity of goods in Canada, will cause a rise in the Canadian price level. Imports will be stimulated, exports

[1]If part (or all) of the loan were directly expended abroad, that part (or all) would enter Canada in the form of commodity imports - the remainder going through the process outlined below.

checked. To pay for the excess of imports over exports, the Canadian importers will buy foreign exchange from their banks, giving cheques upon their deposits in payment. If the excess of imports over exports exactly equals $100 million, the amount of the loan, the Canadian deposits will fall by $100 million and the bank will re-export $10 million gold from their cash reserves and use this $10 million and $90 million of their funds on call at New York to meet the foreign bills of exchange which they have sold to their customers. Prices, deposits, cash reserves, will all be back to their levels prior to the flotation of the loan, and the borrowed capital will have moved into Canada in the form of commodities.

If the borrowing abroad is not a single transaction, but is continued indefinitely at a constant rate, deposits,cash reserves, prices, outside reserves, will be definitely maintained at their increased levels."[1]

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[1] J. Viner, op. cit., page 178,179. See table 32, page 124.

Another way in which outside reserves were swelled is as follows: "A Canadian corporation floating a large loan in London may have no immediate need in Canada for all or part of its proceeds, but may expect shortly to need foreign funds to meet payments on foreign purchases. The corporation may therefore leave the proceeds of the loan in London as a sterling deposit with the branch of a Canadian bank checking on it as it needs foreign funds. In this way the proceeds of the loan do not enter Canada until the foreign goods they pay for have been purchased, but the outside reserves and outside deposits of the Canadian banks expand temporarily". (Viner, op. cit., page 182). (cont'd)

The important point is, need these imports of commodities have been made at all - especially in a case such as outlined above where the entire proceeds of a foreign loan were used for domestic purchases. Elliott believes that such a $100 million deposit could just as easily have been created by domestic action based on increased gold production or a lenient credit policy. But following the orthodox quantity theory of money, would not the consequent rise in domestic price level have resulted in a passive trade balance? This would have necessitated increasing payments in foreign currency which would ultimately have involved foreign loans - or a counteracting credit restriction due to loss of gold

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(cont.) Another view on the action of the foreign reserves of the banks is that of H.P.M. Eckhardt, whom Viner describes as "the foremost student of Canadian banking." "It is interesting to note the rapid manner in which the outside reserves developed from the beginning of 1908, with the commencement of the extraordinary movement of British capital into Canada...The total increase in about a year and three quarters was $115,000,000. A considerable part of this represented proceeds of new securities issued in London. In thus finding temporary employment abroad for this large sum of new money, the bankers undoubtedly followed a wise policy. The sudden injection of so much new capital would have created disturbance in the Canadian financial system. So the funds were placed abroad at first and brought into use in the Dominion gradually and carefully." (H.P.M. Eckhardt,- "The Immediately Available Reserve", <u>Journal of the Canadian Bankers Association</u>, July 1913).

and the strict adherence of banking policy to gold reserves, thus undoing the first step.

There seems to be little doubt that assuming the normal functioning of the gold standard, Canada would have been forced to import capital during a period of expansion, unless such an expansion were accompanied by a corresponding increase in production. In the case of an expansion in capital goods (as in 1900-1913) where the factor of time-lag is so conspicuous, a rising price level was inevitable if financed by domestic credit expansion. However, at the present day, when the gold standard no longer operates, when exchange and currency controls are quite common, the above does not appear as essentially true and all embracing as it may have seemed a decade ago.

Although there is little doubt that Elliott's claim of foreign loans being used as a basis for internal credit expansion by the banks is true to an extent, nevertheless, could such an expansion have been maintained independently? Granting the operation of the gold standard, what was there to prevent Canadians from employing their own labor, and mainly their own products, without financing the process from London? Was a certain inflationary stimulus essential? Could not a certain proportion of Canadian economic activity have been diverted to capital projects without capital imports? True, the process would have had to be slower. Some import of capital would have been necessary but on a more moderate scale. This would have further enabled a diminution on the growing total of capital imports being used to service the existing debt.

Could Canada have financed this development internally with domestic savings? It might have been accomplished but not at the same whirl-wind pace. This would certainly have been worthwhile. The Canadian economy would have been freed from the financial rigidities which wreak havoc on any attempt to introduce a measure of badly needed flexibility in the Canadian economic system. It is difficult to discuss what might have been, in the light of what has occurred. The one is purely hypothetical and can never be tested - the other an actual fact. However, such ideas never occurred to the banking community, and would have seemed far-fetched to the business man. Banking policy is notoriously circumspect. The way of the foreign loan was easier. It brought faster results - and any idea of controlling the development of Canada based on long-term views would have been regarded as unsound, unwise, and an unwarranted interference with individual initiative and the normal working of the economic structure. The burden of rigidity in large foreign debts was overlooked for the immediate gains from foreign investment - profits won out to the detriment of future welfare.

The increasing unreliability of Viner's figures in the later years is shown by the growing margin of errors and omissions, especially in 1912 and 1913. The estimate made by Knox for 1914 to 1925 exhibits still large errors, showing an excess credit of $2,543 million over the period, or an average credit error of approximately $195 million annually.[1] The magnitude of this

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[1]Table 31, page 114.

error can be realized by considering the fact that the average credit balance on merchandise account for this period is about $200 million. Knox feels that he is unable to account for the size and bias of these errors.[1] These are the results of a direct and independent estimation of both current and capital accounts. The only items large enough to introduce by error a bias of this magnitude in the results are the figures for commodity trade, interest and dividend payments, and capital movements. If the substantial accuracy of the customs statistics is accepted, only capital movements and the computation of service charges payable abroad based on it remain. After an investigation of the capital account the only point where Knox sees any possible source of error of considerable dimensions is in the treatment of international trade in securities - but even doubling his estimate for the purchase of securities held abroad by Canadians, the error for this period would still exceed $2,000 million. Again, there is little likelihood of the error resulting from the estimates of interest and dividend payments, as these figures are in harmony with the foreign capital investment in Canada over this period and its yield.

In this regard Knox's conclusion is: "In short, the writer has no adequate explanation to offer for the size and bias of the error during the years 1914-1925. It should be said, however, that its existence does not render the estimate useless. If the qualifications which its existence may entail are borne in mind,

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[1] F. Knox, see Excursus in "Canadian-American Industry", pages 323-324.

these estimates of Canada's balance-of-payments may be used as indicating the direction and amount of the change in the several items with almost as much assurance as if the error were of the much smaller relative size which appears to be common in such calculations".[1]

Knox's estimate of the balance-of-payments for 1926, shows substantial agreement with the Dominion Bureau of Statistics estimate[2] for that year.[3] This estimate of the Dominion Bureau of Statistics is for one year, 1926, before the new Dominion Bureau of Statistics calculation checking directly on capital movements was made, and is biased in the same way as Knox's estimates.

[1] F. Knox, op. cit., page 324.

[2] "The Canadian Balance of International Payments" 1926-1936 (D.B.S. bulletin).

[3] (millions of dollars)
Plus: Minus

	Knox (1926)	D.B.S. (1926)(revised)
Visible Items		
Merchandise	281.3	275.6
Gold	30.6	31.5
Invisible Items		
Tourist trade	103.1	107.5
Interest & dividends	240.0	201.0
Freight	17.0	9.5
Miscellaneous	27.8	10.0
Bal. on Current Acc.	185.8	189.1
Net Capital Movement	16.8	35.8
Errors & Omissions	202.6	224.5

The cause of the error probably lies in the capital account. The statistics used in current account are comparatively straightforward and their substantial accuracy may be taken for granted. The flaw probably lies in the estimation of capital movements over this period, based largely on balance of indebtedness figures. Price fluctuations and their attendant disturbances likely account for much of this divergence. Viner largely avoided this in his calculation owing to the relative simplicity of the period he covered, the steady almost unilateral flow and a firm price trend; although in the later years, increasing errors of considerable dimensions creep in. The period handled by Knox covers the rapid rise in price level during the Great War, the sharp drop in 1920 and 1921, and the subsequent recovery to 1926. This undoubtedly influenced both capital values and capital movements. It is likely that Knox does not allow sufficiently for the drop in prices. Again, the war years were a period of dislocation and unorthodox and unusual capital manoevres. All economic data for this period concerning capital movements, gold movements, repatriation of funds and the like, are tinged with the exigencies of war measures and other complications. Of course, it is difficult to allocate the burden of error in Knox's estimate to corresponding years, inasmuch as they occur fairly generally throughout the entire period; but the above undoubtedly had some effect on the accuracy of Knox's estimate. For the period 1927 to 1936, the Dominion Bureau of Statistics - in its direct estimate of gross capital movements based on more adequate information - has tended to eliminate much of the previous confusion in capital account and bring the statement of net capital movement within usable accuracy.

The advent of the World War cut short Canada's passive balance of commodity trade. The industrial equipment built during the preceding decade combined with emergency war demand to cause a tremendous expansion in the volume of foreign trade, especially in exports, enabling Canada to build up large credit balances on merchandise account from 1915 to 1919. This large credit merchandise balance for the war period was offset mainly by interest and dividend payments and a net export of capital. Capital imports from the United Kingdom came to a rapid halt, and although capital imports from the United States continued in a growing stream,[1] the statement shows a net export of capital in 1916, 1917, 1918 and 1919,[2] mainly due to the extension of war-time credits to the British and other governments, and re-patriation of securities and so on, all of which were necessary to finance increasing imports from Canada.

After the war, Canada moves into the transition period. But before this happened the acute world depression of 1920-1921 occurred. The slump in prices and business is reflected in the immediate drop in the value and volume of Canadian export trade. The balance-of-payments statement shows a debit balance of $50 million on merchandise account in 1920, and a credit of $15 million in 1921. During these two years interest and dividend charges

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[1]See note, page 49.

[2]Indirect estimate based on current account figures. For the period covered by Knox's estimate, capital movements referred to in the text are indirectly based on the balance of current account, due to the large margin of error apparent in his capital account figures.

were met by additional capital borrowing. Another reason for this debit balance on capital account is that Canada was being repaid large amounts advanced to the United Kingdom during the war.[1]

"In the second period (20-29) we were apparently in the main a capital exporting country and our exports increased much faster than our imports. It should be noted that we were in a favorable position to increase exports inasmuch as we entered into a period of actual production upon the basis of previously installed capital goods and could now meet the needs of a world that was short of raw material."[2] This takes no account of the fact that this active balance of trade was used largely to meet net interest and dividend payments. Actually, if capital imports of the years 1920-1922, and 1929 are included, Canada did not export much capital on balance over this period. Knox's direct estimate of capital account shows an overwhelmingly inward movement of capital. Was there any real 'net' export of capital in the sense that Canadian investments abroad increased more than outside investment in Canada? Canadian foreign investments increased by $734 million over this period compared to an increase of $1,965 million in the

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1920	--	$104 million
1921	--	128 "
1922	--	84 "
1923	--	52 "

(This accounts in part for the fact that credit balances on merchandise account were comparatively smaller in 1922 and 1923)

2 C.G. Elliott in "The Canadian Economy and Its Problems"(Innis & Plumptre, Eds.), page 230.

case of outside investment in Canada.[1]

On the whole it was a period of transition. Canadian investments abroad showed a rapid increase. Some of the Canadian capital exports undoubtedly went to liquidate existing obligations. But the inward flow of capital was still maintained, chiefly from the United States. Two differences in the nature of the capital movements during this period are discernible. In the case of outside investment in Canada, the emphasis was shifting from the borrower to the lender - from the borrower seeking capital for a projected enterprise, in the world's money markets, to the lender desiring a profitable outlet for his capital. Again, Canadian capital exports were to an unprecedented degree of a short-term nature. This is most marked from 1923 to 1928.

During the period 1923 to 1928 there was a large net outward movement of capital from Canada.[2] At this time Canadians were making direct investments chiefly in South America and the United States, and were buying back Canadian securities from abroad, or purchasing foreign securities, principally in the New York stock exchange. Also the Canadian banks were keeping increasingly large

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[1]There is no reason for supposing that fluctuations in the valuation of investment over this period would very much invalidate this result.

[2]Indirect estimate from current account figures (1923-1926), table 31, page 114, also net capital movements, (1927 and 1928) table 31, page 115.

		$	
1923	-	34.3	million
1924	-	107.6	"
1925	-	249.9	"
1926	-	189.1	"
1927	-	4.2	"
1928	-	82.0	"

sums of money on call in New York due to the high rates then prevailing. This was due chiefly to three factors:-

1) The large foreign investments in Canada were bearing fruit, and there was a tremendous expansion of output and industrial activity.

2) Successive large harvests, which at that time were being absorbed by available markets, were a foundation of prosperity.

3) During the war some $1,250 million had come into the country through the purchase of Canadian commodities at the then prevailing high prices, which was now seeking an investment outlet. "These three factors combined caused an unprecedented accumulation of savings which was used by financial institutions and individuals not only to finance domestic capital needs but also to avail themselves of opportunities for profitable investment abroad. The prolonged and extravagant bull market in New York and other United States exchanges, culminating in the early summer of 1929, and the high interest rates prevailing in these markets attracted enormous sums to the United States from other countries including Canada."[1]

Bumper crops combined with available overseas markets to give Canada large export balances, especially in 1924-1926. These large credit balances on merchandise account, together with the substantial credit item on tourist account,[2] were used to meet net interest and dividend payments which had grown to well over $200 million; the remainder, after minor debit and credit items were

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[1]Canada Year Book, 1933, page 599.

[2]It grew from $30 million in 1920 to $100 million in 1925 to $187 million in 1929.

adjusted, consisted of a net outflow of capital. Hence, for the period 1923-1928, Canada had on balance a net export of capital, although other countries invested large sums in Canada at the same time. As can be seen, much of this capital outflow was of a short-term nature. The significance of this is revealed in the reactions to the crisis following 1929, when the liquid Canadian holdings abroad acted as a buffer, greatly easing the strain of the adjustment in the balance-of-payments.

The balance-of-payments figures estimated by the Dominion Bureau of Statistics for 1927-1936 show far greater accuracy than the previous estimates. Based on more adequate data, and especially covering the direct movements of the various types of funds over the international boundary, errors and omissions are reduced to an amount not likely to interfere with the use of the balance-of-payments statement. Errors and omissions for the 10 years, 1927-1936, give a credit balance of $80 million or an average annual error of about $8 million.[1]

The events of 1929 brought the net outflow of funds which had developed during the years 1923-1928 to a sudden stop. Canadian exports, which had shown a decline in 1928 owing to the weakness of raw material markets, experienced a sharp drop due to conditions of world-wide depression. The tremendous decline in foreign trade was reflected in passive balances of trade in 1929, 1930 and 1931.[2] The stock market crash in New York particularly affected Canadians due to their heavy commitments there. The immediate

[1] Compare Knox's estimate - see page 129.

[2] Table 31, page 115.

effect of the New York collapse was the withdrawal of Canadian short-term funds in New York. The drop in gold exports in 1930 to a negligible amount is due largely to the repatriation of Canadian liquid funds from New York. Short-term funds employed by the chartered banks in New York fell from $188 million at the beginning of 1929 to $98 million at the end of the year and still further in 1930. Canadian holdings abroad acted as a shock absorber in reducing the effects of the maladjustment and the rest was accounted for by capital borrowing. New issues exceeded retirements by $7 million in 1928, $132 million in 1929, and $290 million in 1930.[1]

This clearly illustrates the advantage of a reserve of liquid assets abroad to balance trade dislocations in the balance-of-payments and smooth over such a period until internal adjustments can be made. This need is accentuated in the Canadian case by the vulnerability of the Canadian balance to trade fluctuations and international dislocations. Whereas the adjustment in 1929 and 1930 was far from satisfactory, it points out the way to future management. A reserve of short-term funds held abroad would go far to mitigate dislocations in the Canadian balance-of-payments due to trade fluctuations. It would enable Canada to meet the rigidity of the interest and dividend item temporarily. This, of course, is advanced only as a temporary measure and presupposes that internal adjustments will be made. Again, such a reserve would have to be of a somewhat more substantial nature than the very largely speculative short-term holdings in 1929.

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[1] Table 33, page 140.

The readjustments in the Canadian balance-of-payments are well on their way by 1932, and signs that Canada is embarking on the final stage of the loan cycle become evident. It is important to note the comparative fixity of the item for net interest and dividend payments to outsiders over this period. Without considering dislocations and fluctuations the balance-of-payments for this period may be summed up as follows. A relatively stable group of items require a net annual payment of approximately $285 million to non-Canadians. This is composed of:

$230	million for net	interest and dividend payments
25	" " "	freight payments.
30	" " "	miscellaneous payments.[1]

This debit is met by the credit balance on tourist account which has grown to large proportions since 1923 - at present averaging about $150 million - and the credit on account of gold exports, which amounts to upwards of $100 million annually. The remaining credit item is the large, although varying, balance on merchandise account.

Any surplus remaining after the debit items have been accounted for consists of capital exports, which in recent years have been directed chiefly to retiring maturing issues, and other debt reducing transactions.[2] "During 1935 and 1936, Canadians made considerable progress in reducing their bonded indebtedness abroad, not only through meeting maturities, but also through calling

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[1]The debit on miscellaneous account is chiefly due to 'Immigrants Remittances', 'Government Expenditures and Receipts', and 'Net Payments for Entertainment Services, Royalties, not hitherto included'.

[2]See table 33, page 140.

Table 33

THE CAPITAL ACCOUNT OF CANADIAN BALANCE OF INTERNATIONAL PAYMENTS
(1927-1936)

Plus:: Minus
(millions of dollars)

Calendar years

	1927			1928			1929			1930			1931		
	Cr.	Deb.	Bal.	Cr.	Deb.	Bal.	Cr.	Deb.	Bal.	Cr.	Deb.	Bal.	Cr.	Deb.	Bal.
Net new issues (par)	301	...	301	207	...	207	283	...	283	400	...	400	216	...	216
Retirements '	...	160	160	...	200	200	...	150	150	...	110	110	...	207	207
Purch. & sale of sec.	...	(184)	184	...	(188)	188	...	(105)	105	...	(13)	13	...	(24)	24
Net capital transactions of intl. branch plants"	28	...	28	18	...	18	15	...	15	23	...	23	...	01	01
Other items	36	25	11	101	20	81	122	11	111	27	12	15	70	07	63
Total	365	369	04	326	408	82	420	266	154	450	135	315	286	239	47

	1932			1933			1934			1935			1936		
	Cr.	Deb.	Bal.	Cr.	Deb.	Bal.	Cr.	Deb.	Bal.	Cr.	Deb.	Bal.	Cr.	Deb.	Bal.
Net new issues (par)	104	...	104	137	...	137	111	...	111	113	...	113	106	...	106
Retirements '	...	104	104	...	163	163	...	169	169	...	267	267	...	270	270
Purch. & sale of sec.	...	(16)	16	289	238	51	321	312	09	302	231	71	422	415	07
Net capital transactions of intl. branch plants"	...	31	31	...	74	74	...	51	51	...	52	52	...	74	74
Other items	51	15	36	44	21	23	27	43	16	20	38	18	22	45	23
Total	155	166	11	470	496	26	459	575	116	435	588	153	550	804	254

' Full title: retirements including maturity, redemptions and sinking fund repurchases. 1933-1936 Sinking fund repurchases included in purchase of security.

" Included here are the net movements of funds resulting from the operation of the branches, subsidiaries etc., of British and Foreign companies in Canada,-and vice versa; and the net movement of funds resulting from the international transactions of Canadian Trust Companies. Although the more important current transactions of the above companies, e.g. dividends, have been included in the current account small items difficult to segregate are included here.

Note: A direct estimate of purchases and sales of securities was unavailable for 1927-1932, the estimated balance alone being given.
Estimated change in the net assets of Canadian banks outside Canada in 1928 was $86 million, 1929 $88 million. (included in Other items)

Source: "Canadian Balance of International Payments 1926-1936" (Dominion Bureau of Statistics Bull.)

certain issues before maturity. In many cases refunding issues were taken up in Canada at lower rates of interest."[1] These retirements effected a reduction in Canadian international indebtedness, chiefly to the United States, of some Canadian governments and corporations. The refinancing will also reduce future annual service payments on the foreign owned bonded debt. This reduction of future payments abroad constitutes a most important long-run consequence of capital operations during this period. Assuming that conditions do not alter radically in the future, there is reason to believe that this trend can be continued.

Canada is definitely on the last phase of the loan cycle. Generally, she maintains a large credit balance on merchandise, gold, and tourist account, out of which a net transfer of funds for financial payments is made. If net interest and dividend payments are added to net outward capital movements in 1936, the total outflow of funds was $487.5 million. This is undoubtedly warranted by the service charges, and retirement or conversion operations which reduce the total debt and subsequent annual service charges. Further operations to reduce interest payments can and probably will be undertaken.[2] This outward movement of funds should in part be used for building up outside holdings

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[1] "The Canadian Balance of Payments 1926-1936" (D.B.S. bulletin)

'retirements' in 1936 consisted of:

	$
payment of bond maturities -	145 million
Canadian bonds called abroad -	85 "
Serial, sinking fund payments, etc. -	40 "
	270 million

About $100 million of these were refinanced abroad at lower rates.

[2] See below, pages 153,154.

of a liquid nature to smooth over periods of dislocation in the balance-of-payments. All in all, if nothing untoward occurs, it seems that the future may bring a measure of greatly desired flexibility in the Canadian balance-of-payments, if it is guided along these lines.

CHAPTER VII

Planning a Canadian Balance-of-Payments.

It is generally admitted that the smooth working of a national economy cannot be left to the automatic functioning of a presumably flexible price mechanism. Regardless of the theoretical implications involved, regardless of academic or business dissent, the above is a matter of fact. Government is in industry, and apparently to stay. Tariffs were probably the first move, then came monetary and banking controls, labor measures, unemployment relief, minimum wages, and government ownership of public utilities, and so on. Present-day cyclical disturbances have especially furthered the role of government in industry. This is, as mentioned above, not a question of theory or proper practice, but a matter of fact. Three courses of action are possible. The status quo may be accepted, but this is admittedly unsatisfactory on all sides. Again, a return to the 'open market',despite its many adherents, is impossible in practice. The last alternative - and the one which conditions seem to be furthering every day - is an eventually complete governmental (or central) control of industry.[1]

The plain fact that the national economic machinery bogs down and does not run adequately by itself, has caused governments to step in. Hitherto such interference and control has been sporadic, undetermined and without any particular plan, depending

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[1]Whether complete, or adequate control of industry by governments, or their agencies, is compatible with private ownership or a individualistic capitalist economy poses a further question, which obviously cannot be dealt with here.

largely on the political and economic exigencies of the moment and the situation confronted. No definite generally applicable national economic policy by which the government concerned would be guided, has been followed - except in monetary affairs where the negative slide rule of monetary stability has usually been adhered to as far as possible. "During years of negotiations at Geneva, I came to the conclusion that the greatest obstacle to international agreement was not a conflict of interests but the fact that governments were not master in their own home; not a conflict of national policies but the fact that there were no national policies concerned as a whole - that there was merely a complex of measures improvised under the pressure of sectional groups or successive emergencies. When one had penetrated behind the formal statements to the real minds of the national delegates, one found that they were usually preoccupied not with the general interest of a national policy, whether wisely or unwisely conceived, but a calculation of political pressures of groups in their various parliaments."[1] What has been essentially lacking has been a general and comprehensive worked out policy and plan in governmental economic activity. This is as necessary, though practically impossible to obtain, in a compet tively organized economy (something like Canada today), as in a planned economy. The salient difference is that such a conception of policy goes hand in hand with a planned economy; indeed it must be the basis of any plan. However, for the moment, even if a planned economy

[1] Sir Arthur Salter, "World Trade and Its Future",, pages 91-92.

is not contemplated - the significance of as best possible adhering to and following a concept of (general) national economic policy, cannot be overlooked.

Planning in Canada

"The basic logic of central planning is the need for some authority with the responsibility and competence to see the economic problems of the entire nation as an integral whole. The rationalisation not merely of one firm, or one trade, but of our economic life demands that all units in the economy should work together under leadership towards a common goal."[1]

The implications and problems of national economic planning do not come within the scope of this thesis. We are more concerned here with planning a balance-of-payments, itself an integral part of any national planning scheme, and the implications involved therein. This will probably give rise to two arguments. First, what is the value of considering a balance-of-payments plan? How useful can it be without a general economic plan? This criticism is valid. Any attempt to plan a balance-of-payments alongside the present economic framework in Canada would undoubtedly be wrecked on the rocks of individual and sectional interests, to say nothing of business sabotage. But this does not mean that a consideration of planning the balance-of-payments is worthless.[2] The constituent elements of a complete plan are essential as they must be constructed before any plan can be built out of them. Again, even without a general concept of economic planning, the implications involved

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[1] Social Planning for Canada, page 222.

[2] See page 11.

in planning a balance-of-payments are as vital to a conception of proper economic policy today as to a planned economy. National advantage in the sphere of international economic transactions should be followed as closely as possible - forming a guide for governmental action in these particular matters.

The second criticism is that planning in an economy essentially based on a rapidly fluctuating income and relatively fixed costs is impracticable. Furthermore, that the Canadian producer is in large part dependent on an international market beyond domestic control - thus making any planning scheme ineffective. Rather than an argument against planning, this is probably the strongest argument for planning in Canada. Granted fluctuations, the objective should be to mitigate and allocate them as well as possible - and to seek a measure of stability rather than be swept with the tide. "Undoubtedly some dislocations and consequent shrinkages in the national income cannot altogether be prevented, even by planning. But at present such disturbances fall most unequally upon the different groups in the community, depending upon such arbitrary circumstances as whether their incomes are sheltered by tariff barriers or are exposed to the fluctuations of demand in a foreign market, whether they enjoy the protection of the rigidities and vested interests of our economy, or are squeezed by its arbitrary fluctuations....Even though the crops may fluctuate unpreventably and foreign markets lapse into a chaos of uncontrollable nationalism, the impact of these disturbances on the economy can be minimized by immediate and vigorous measures."[1] It is obvious that any fully satisfactory planning scheme for Canada must be based on international co-operation. Otherwise, planning for Canada becomes in many ways a negative rather than a positive effort; an attempt to meet and minimize the effects of fluctuations in national income, rather than to eradicate their causes. This may belong to the far off future - however, before any effective attempts at international control can be made, an efficient domestic machinery of economic control must be in existence. Planning for Canada must precede any broader and more vital scheme of international economic co-operation and control.

Planning the Balance-of-payments

Accordingly, special attention must be given to international economic relations when considering the planning of the Canadian economy - and this means the planning of the balance-of-payments. The essential relationship of the balance-of-payments to the economic structure is evident in its definition. It is the measure of all international economic transactions. In the case of Canada - whose foreign trade is so important, whose revenue from the tourist trade and gold exports is large, over one-third of whose capital is outside owned with resultant heavy annual interest and dividend payments - it is of exceptional significance. The principle that the balance-of-payments as a whole will balance must be accepted. Working within this framework, what must be sought is not an independent manoeuvring of the individual items, but to bring the international accounts into harmony with general conception of economic policy as will benefit Canada and fit into the general plan. The criteria to be adopted must be

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[1]"Social Planning for Canada", page 222.

firstly the integration of the international transactions of the nation with a national economic plan and policy. This does not mean that a domestic plan is drawn up and then the balance-of-payments adapted to it (this would be impossible), but rather the requirements on both sides are analyzed and then adjusted to maximum advantage. The other criteria are of course the fundamental criteria of all economic activity - which are so often neglected - or overlooked - aiming at a national 'full dinner pail'. They may be summed up under three heads:

(1) production
(2) distribution
(3) stability

This means firstly, the production of as efficient and large a national income as possible. Secondly, the equitable distribution of this income between the various groups and individuals in the community; and finally the continuance of the economic process without disrupting disturbances.

Generally, the objectives in controlling a balance-of-payments are as follows:

a) Encouraging international transactions that are 'advantageous' and discouraging 'disadvantageous' ones.

b) Smoothing out any burden of international payments by working towards an adjustment of home production and enterprise which will meet payments for items required from abroad and the necessary financial obligations.

c) Maintaining the level of international transactions at an optimum.

This does not disclose very much - nevertheless, these are the intrinsic considerations behind any manoeuvring or control of the various items in the balance-of-payments.

Planning a balance-of-payments for Canada resolves itself largely into a consideration of the major items. The smaller items, e.g. immigrants' remittances, charitable contributions, royalties and entertainment services, depend largely on personal factors. Again, they are of insufficient magnitude to have much effect. Planning a balance-of-payments - especially in the case of Canada - centres about:

1) Foreign exchange.
2) Foreign trade (freight may be included herein).
3) Foreign investment.
4) Interest and dividend payments and receipts.
5) Some special items-in this case, tourist trade gold exports.

Foreign Exchange

Foreign exchange is a paramount consideration. Although not a causal factor, it is the medium by which international economic transactions are carried on, and it measures in large part the stresses and strains of this economic intercourse. Again, its appreciation or depreciation is of vital concern, especially as it affects the terms and conditions of international exchanges. The lack of balance in international transactions will first reveal itself in fluctuations of the exchange rates. An adjustment will follow, the altered conditions of international transactions causing a change in the various items concerned - but this does not mean that such an adjustment is satisfactory.[1] The change in the various items may easily be contrary to national interests.

[1]See note following page.

Hitherto the cardinal regard of those in charge of monetary policy has been the stability of foreign exchange - largely a legacy of the old gold standard and accepted 'proper' banking policy as exemplified by the Bank of England. Stability of foreign exchange, in and of itself, is no longer a satisfactory criterion. The chief drawback is that it renders a country too vulnerable to outside economic disturbances and often forces the adoption of policies which stifle economic activity. It is questionable whether the benefits of exchange stability are worth the costs of deflationary domestic policy.

During the past depression, the Canadian government was careful to avoid any inflationary or price raising policy (this being de facto a deflationary move) in order to maintain Canadian exchange. This carries further and reveals a fundamental cleavage between two sections of the Canadian community. Canadian exchange holds a peculiar relationship to the pound sterling and the American dollar. Fluctuations in these currencies following 1931 have shown that the tendency was for the Canadian dollar to seek a level midway between the two.[1] After England abandoned the gold standard in September 1931, the pound fell in terms of the American dollar and the Canadian dollar followed a course between them. This meant that Canadian money was at a premium in London and at a discount in New York.

(cont'd) This of course, disregards possibilities of the working of the gold standard. Again, this process outlined does not always occur, as nations recognize the implications, and generally take steps to control currency fluctuations, either indirectly by exchange stabilization schemes, internal price alterations and the like, or directly, by exchange control. This last ultimately means a controlled balance-of-payments, inasmuch as all international transactions must be sanctioned or permitted by rationing of exchange, or clearing agreements.

This condition was permitted largely on account of the large amount of debt - federal, provincial, municipal and corporate - which had been contracted in American currency. It also benefitted importers. Nevertheless, it was opposed to the interests of the exporting and raw-material producing community who desired a depreciating currency which would enable them to sell their products at lower prices in foreign funds and assure them of a larger share of the national income. Again, inasmuch as the Canadian dollar was at a premium on the pound, sales in Great Britain, Canada's chief market, were greatly hampered. The question involved is more than a division of interests - the real concern being the stifling effect of such a policy on internal industrial recovery. "Since 1931, Canadian exchange has probably been higher than the best interests of the country would warrant. Notwithstanding strong arguments to the contrary it would have been preferable to keep the Canadian dollar from any appreciation above the pound... In a raw-material producing country, the chief sources of variation in the national level of prosperity are likely to be the fluctuating incomes received by the producers of such materials. These depend upon the volume and prices of the exports; and the prices in turn, depend upon the prices in foreign or world markets converted into the exporter's currency at the prevailing exchange rate.... That some debtors, with obligations in the United States would have been worse off, is quite clear; but it seems probable that the dominion and provincial governments would have been, on balance, better off, not to mention the majority of the Canadian people."[1] If Canadian exchange had been held down to sterling parity it would have given a stimulus to the Canadian

[1] A.F.W.Plumptre, "<u>The Canadian Economy and Its Problems</u>" (Innis and Plumptre Eds) pages 165, 166.

export trade and a corresponding impetus to Canadian industry; resulting in a greater taxable income, which might have compensated for the greater burden of payments on the government's external debt payable in American currency.

Australia was in a similar position at this time. Her economy was based largely on the export of staple products and she had a large foreign debt (in her case it was held mainly in Great Britain which greatly simplified the issue). In December 1931, the Australian pound was allowed to depreciate to a 25% discount off sterling.[1] This gave the export industries a much needed boost. As Professor Copeland (who was largely instrumental in formulating and guiding the Australian recovery program) says in his book "Australia in the World Crisis", "It would be an error to make a fetish of stability with sterling and still more of parity with sterling. Independent management of the currency requires that the rate of exchange should be such as to restore profit in industry at the level of costs which can be maintained without social and economic distress."[2] What is relevant here is that domestic prosperity may easily be hampered by preoccupation with and a rigid attitude to foreign exchange and the balance-of-payments items themselves. In this case, a preoccupation with the interest and dividend items and the absence of any policy and management of foreign exchange, neglected the question of foreign trade and internal adjustment - probably retarding recovery thereby, and furthering sectional grievance.

Any attempt to control the balance-of-payments will involve some measure of control over foreign exchange rates. The writer

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[1]This went hand in hand with the general Australian recovery program which essentially revolved about a reduction in costs, e.g. interest, wages, and so on.

[2]Taken from W.T.G. Hackett, "The Australian Recovery Plan" (Can. Chartered Accountant, Jan. 1936).

would not be too averse to exchange control. This means more than a stabilization of rates - it includes rationing of exchange and the application of differing rates of exchange to specific transactions for the purpose of encouraging or discouraging them. This forms the most effective medium of control over international economic transactions. Again, in view of present day monetary practices it is no longer so radical a proposal.

Interest and Dividend Payments

The keystone of the Canadian balance of payments is undoubtedly the annual net payment for interest and dividends. This amounts to approximately $230 million. Admittedly, it is a heavy burden directly and indirectly. It constitutes a strong element of rigidity in the balance of payments (despite fluctuations on dividend account[1]). Its burden varies inversely with the national income, being heavier in periods of depression than in periods of economic prosperity. It differs from internal interest charges in that it subtracts from the national income rather than affects its internal distribution. Again, in periods of depression the problem of transfer is accentuated inasmuch as Canadian exports are primarily hit and tourist revenues shrink. Recourse to further borrowing sometimes becomes necessary, thus swelling interest charges still further.

Assuming the continuance of a capitalistic form of economy interest payments in future on the Canadian debt cannot be passed over. Inasmuch as Canada's borrowing days are apparently over, the tendency will be for this burden to diminish rather than increase. However it is not likely to be affected substantially. Active measures to reduce the interest burden should therefore be undertaken. It goes

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[1]See table 25, page 78

without saying that this is a phase of a general reduction of debt charges both internal and external. We waive discussion of moral issues, sanctity of contracts, widows and orphans and so on. Interest rates on much of Canada's foreign debt are out of line with those prevailing to-day. This opens the way to conversion and refunding operations. That a reduction in debt charges is possible without moral and financial castigation should be apparent from the Australian experience Putting through a comprehensive and well-worked out scheme of debt readjustment, Australia has succeeded in substantially lowering interest charges, despite an increase in gross debt of about 12.5%[1].

Of course, the above applies chiefly to government debt, which amounts only to about 24% of the total externally held debt, although payments on government debt assume a greater preponderance when considering interest payments alone. Private debtors would encounter greater difficulty, although if the government would stand behind them, steps might be taken in this direction. A possible alternative would be for the government to take over all external debts, assuming their creditor role in relation to private parties. A large number of difficulties will crop up here, the numerous agencies involved, the possibilities of government thus controlling these private enterprises and so on.

The transfer of dividends and direct earnings abroad poses a more troublesome problem. It is difficult to see how outside companies

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1	June 30, 1929	June 30, 1935
Total Govt. debts	£1,104,028	£1,242,114
Average Interest cost ..	5.03%	3.87%
Annual Interest cost per capita	£8/14/9.	£ 7/2/1

W. T. G. Hackett in "Canadian Chartered Accountant" , January 1936 operating in Canada can equitably be prevented from withdrawing their earnings. This is mitigated in part by the fact that the level of such earnings will fluctuate with periods of rising and falling business activity. Hitherto, outside plants in Canada (chiefly American) have reinvested much of their earnings; however in the near future an outflow of funds of considerable dimensions on this account can be expected. This will add further to exchange difficulties. The logical solution, of course, is increased exports to the United States. Whether this is feasible, or better, practicable remains to be seen.

A socialist government - assuming it were willing to respect the sanctity of contracts with foreigners- could handle the matter by consolidating all Canadian debts due to foreigners as a general government debt and dealing with it accordingly. This would include direct investments which would be nationalized. It would probably take the form of a funded state debt with greatly reduced interest charges. The inclusion of a moratorium clause to cover periods of transfer difficulty would be very advantageous. However, would outside creditors accept?

Regardless of the above, active measures to reduce interest payments abroad should be undertaken. This is a cardinal point in any balance-of-payments policy. If financial obligations are reduced tomanageable proportions, the task of controlling the balance of payments is greatly facilitated. Nor will such action necessarily be disadvantageous to Canadian credit. Quite the reverse - if as a result of lower debt charges (internally & externally), the Canadian economy is aided to function smoothly and adequately, her credit will as a result be higher. The most important obstacles to any such program lie in the opposition of highly organized and vociferous creditor groups and their associates, who are in a position to sabotage the government merely by failing to co-operate. Any planning authority must however reconcile itself to a substantial debit item of interest and dividend payments on current account.

Foreign Commodity Trade

Foreign trade is an overruling consideration. Apart from its role in the balance-of-payments, it is a matter of special concern in and of itself. Commodity trade is basic in international transactions. The position of foreign trade in the Canadian economy further magnifies its importance. Any control over the balance-of-payments must allow for the maintenance of as large a volume of foreign trade as possible and its expansion. As has been shown, apart from capital movements, an active balance of trade is always necessary to cover the steady outward stream of interest and dividend payments. Further, the trade item in the balance is most easily hit by international economic dislocations.

The nature of Canada's foreign trade may be summed up as follows:

1) the volume is extremely large.
2) this trade is marked by its instability.
3) the volume of exports depends to a large extent on the export of a few staple products.
4) imports are in most cases of an essential nature.
5) export industries play an important role in the Canadian economy.
6) Canadian trade is conducted mainly with two countries, Great Britain and the United States.

A planning authority must establish control over foreign trade based on the above considerations. This involves far more than a mere examination of passive and active trade balances. The planning of international economic transactions is an integral part of the planning of the entire industrial structure. In the case of foreign trade the following questions are likely to crop up. What role shall be assigned to production for export? Shall the present export industries be encouraged? Should activity be diverted as best possible alternative industries? What about the Canadian tariff? Which domestic industries warrant protection? What should be the height of the tariff barrier? Is the present regional location of industry satisfactory? Can foreign markets be maintained? Where shall goods be sold? Where shall they be bought? What commodities should be imported?

Considering the above, based on natural resources, labor power and existing plant, the industrial future of Canada must be blueprinted. This must also take long-term trends into consideration. If, as many people claim, agricultural and raw-material producing countries will have to reduce their exports overseas due to a vastly expanded productive capacity being faced with a stationary and even declining demand, the entire Canadian producing structure as well as foreign trade will have to be revised. "Food producing countries like Canada, Australia and Argentina, whose economy has largely developed on the basis of the apparently illimitable opportunities for exports into countries like Great Britain, will be forced to industrialize themselves to a much greater extent than at present."[1]

After the scheme of foreign trade in the Canadian economy has been determined this must be coordinated with the requirements of the balance-of-payments. Under normal circumstances it is essential and proper for Canada, as a debtor country, to have an active trade balance. This, together with the credit balance on tourist and gold accounts, must be relied upon to meet annual payments for interest,

[1]Sir Arthur Salter, "World Trade and Its Future", page 71

dividends and retirements. The weapons in the hands of a foreign trade authority are tariffs, trade agreements and exchange restrictions. It can use some of these, or all. Trade agreements, especially with Great Britain and the United States, will probably play an increasing role, the main emphasis being placed on stability and assured market both for buying and selling.

Tourist and Gold Accounts

In recent years, the flexibility of the Canadian balance-of-payments has been greatly furthered by large credit balances on gold and tourist accounts which have rivalled the credit on merchandise account. Gold exports have been large due to the recent rise in the price of gold and the consequently stimulated production. Of course, if the value of gold should drop appreciably, this credit item would shrink greatly. The tourist trade has become a primary source of income from a national point of view and ranks with the foremost Canadian industries. From the standpoint of the balance-of-payments, whereas the gross volume of such trade does not approach that of commodity trade - the credit balance on tourist account often overshadows the credit on merchandise account. Again, although tourist trade will fluctuate, it is not subject to reversals of a similar magnitude. A planning authority may rely on a substantial credit balance on tourist and gold account.

Capital Account

Capital account must be adjusted with current account on the basis of a predetermined national policy covering capital requirements and capital movements. Hitherto, capital imports have been very largely the motivating factor in the Canadian balance-of-payments. Inasmuch as Canada is apparently on the last stage of the lending cycle they must now relinquish this role. Attention now centres about service payments and possible eventual repayment.

Whether substantial reductions in Canada's foreign debt by the retiral and maturity of old issues can be expected is doubtful.[1] A good proportion of these will be refinanced abroad. Again, the flow of new capital into Canada, albeit on a more moderate scale still continues. If the burden of the Canadian balance-of-indebtedness is to be lightened, it appears that this must be looked for in the growth of Canadian capital investments outside Canada.

The capital account ordinarily will, and should show a moderately positive balance. This will represent the small stream of Canadian investment abroad and a certain amount for repayment of the old foreign debt. The gradually growing Canadian stake abroad, linked with a gradual increase of domestic capital investment, viewing the improbability of future large scale inward movements will likely offset the weight of outside investment in Canada.

Capital Imports

Although, new foreign investment in Canada does not seem probable on any impressive scale, a certain measure of control will be necessary. Such controls are,incidentally, likely to be exercised by both lending and borrowing countries. To all appearances lending countries will limit the amount of foreign issues which they will permit to be issued and specify certain restrictions as to their nature. This is the trend of recent legislation about foreign capital

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[1]This involves the question of whether foreign debts are ever liquidated. Is the principal of foreign loans ever repaid? One of the reasons for the cessation in post-war lending is the impossibility, or unwillingness of the creditor nations, to allow repayment. As long as the flow continued, individual debts repaid were reflected in new loans, thus involving no change in the balance-of-payments of the nations concerned, but when the stream stopped, a reversal of the former roles was necessary, the creditor countries had to accept a passive trade balance whilst that of the debtor nations became active. This creditor nations were generally unwilling to do, resulting in many cases in postponements and defaults.

issues in both Great Britain and the United States. A Canadian planning authority must first consider:

1. under what conditions shall foreign loans be allowed?
2. what form shall they take?
3. what source shall they come from?

As far as Canada is concerned, any urgent need (which might have been said to exist previously) for outside capital no longer exists. There is an abundance of capital and credit facilities for local development and expansion, and in view of the subsequent burden of service charges and repayment, it seems inadvisable to undertake foreign lending on any scale. The simple condition of the propriety of any foreign loan is that it should result in stimulated production and a greater national income, out of which repayment of the loan and its service charges can be met by an exportable surplus. Foreign lending is worthwhile only when it appears likely to be self-sustaining and to stimulate export trade. These conditions are simple and straightforward. The difficulties arise in actual operation. Just what industrial undertakings stimulate exports? Again, increased production does not necessarily mean increased exports. There is a question of both market and price. Future trends must also be considered. Dislocations due to unforeseen causes or natural disturbances such as crop failures may also occur. These complications enhance the difficulties involved in making such a decision. In view of the present export impasse, it would appear advisable to adopt a policy of negative action except in cases where the benefits of a foreign loan are clear-cut.

Under a national planning system there will not be the individual initiative to obtain loans for private ends. Again, government financing by foreign loans will probably be discouraged. However, due to periodic disturbances, or unforeseen circumstances, it may be advisable to smooth out the burden by foreign borrowing, although such need not be the case.[1] Of course, conceding a continuance of the present individualistic capitalistic economy, some measure of control of foreign lending by individuals and corporations to meet their needs for the moment, or because they find it easier to finance themselves abroad, will be necessary. The individual advantage and the national interests may quite easily conflict in this case.

Again, in the above circumstances, the form which loans should be allowed to take is of importance. There seems to be little doubt that direct investment, the return on which varies with business conditions, is less burdensome than portfolio investment, with chiefly fixed interest charges, especially in an economy subject to fluctuations as in Canada. The main criticism of this view is that direct investment involves loss of control. The significance of control from abroad has been magnified. The actual capital is in machinery and plant in Canada and cannot easily be removed. Again, the interests of an outside-owned plant are generally identical with that of the Canadian community, as their prosperity is dependent on it. The only real difference is that profits from the operation of these firms are taken (or can be taken) out of Canada. Another argument that bids strongly for direct investment rather than debenture and bond issues is that the investor bears the risk; the value of his investment is ultimately governed by the returns from it. The importance of this can easily be seen in the case of Canadian railway finance.

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[1]See page 131.

"There has been, from time to time, a good deal of discussion in Canada as to the forms which foreign investment should be encouraged to take. Bond issues have the advantage of leaving control in Canadian hands but the disadvantage of setting up heavy fixed charges in annual interest and principal payments. The Canadian economy is largely dependent on a few staple exports which are subject to drastic fluctuation both in volume and price. Heavy fixed charges, payable abroad thus create acute problems of banking policy and monetary control whenever a slump strikes the export industries. Industrial investments, of the sort we have been describing, are represented almost exclusively by common stocks. When depression reduces Canadian exports, there is a partially compensating reduction in the interest and dividend item on the debit side of the balance-of-payments. Inflexibility of international financial relationships and alienation of control are the horns of a dilemma between which the choice, when possible, is not easy."[1]

Hitherto, Canadian borrowings have come from the financial centre in which it was easiest to obtain loans. Is the present division in Canadian indebtedness between Great Britain and the United States advantageous? Vital in this concern is the argument that Canadian foreign loans should follow the direction of exports and sales; that this enables direct and easy payment to creditors, and it assures that repayment in strict accordance with the terms of the original contract may be made with the least

[1]"Canadian-American Industry", page 279.

possible strain. Any effort to control Canadian foreign borrowing will also have to take this into consideration.

Capital Exports

Not the least of the problems confronted is the question of Canada's lending abroad. This may be divided into two aspects, short-term and long-term (or investment) lending. Although most of Canadian foreign holdings are of a long-term nature, a substantial partof them is in the form of liquid, short-term assets; e.g. "Net Assets of Canadian Banks Outside Canada"; "Canadian Insurance Company Holdings of Foreign Securities Held Inside Canada", and other holdings in stocks and shares, mainly for speculative purposes and chiefly on the New York exchange. This feature of Canadian outside investments was emphasized during the boom leading up to 1929 and the subsequent collapse. It is a problem confronting any controlling authority. These shifts of liquid funds can cause domestic injury under a privately organized system, by causing a drying up of local capital supplies. However, the maintenance abroad of a reserve of liquid assets would greatly ease the burden of making adjustments in the balance-of-payments. They form an immediately available reserve which can be drawn on in emergencies. Such a reserve would be a great advantage if it were maintained and managed for just such a purpose. Of course, these assets cannot interrupt or reverse a trend but they can smooth the transition and counteract merely temporary disturbances. The use of such funds to meet temporary exigencies in domestic conditions as reflected in the balance-of-payments, rather than resort to further capital imports,would be well advisable.

The problem of Canadian long-term investment abroad poses a more difficult question. This will undoubtedly help to counteract Canada's heavy debtor position. But would it not have been more advisable to use this capital at home for further development - to stimulate industry and give employment. We no longer live in a flexible international world such as envisaged by the classical school, in which the benefits of capital exports will necessarily be reflected in Canada. The impetus of the expansion of capital activities may be needed by domestic industry. True, the rate of profit may not be quite as high - but here the consideration is national advantage. Again, the transfer of funds for large capital investments outside Canada may easily, in and of themselves, cause disturbances in the balance-of-payments. This issue will not, of course, arise in a planned economy, but assuming the perpetuation of our present-day system, it will be a matter of vital concern for anybody seeking to control capital movements. Some sort of licensing procedure for outside investments may be necessary.

The control of foreign investment is an essential part of any planning scheme. This will probably be co-ordinated with the national control of capital investment. (It must be noted that national investment control is urged apart from any suggested planned economy. Keynes is an outstanding proponent of the control of all national investment by a national investment board)[1]. The capital account of the balance-of-payments will likely be manoeuvred as the balancing item, and will bear the shock of dislocations and smooth readjustments. Of course, this is only

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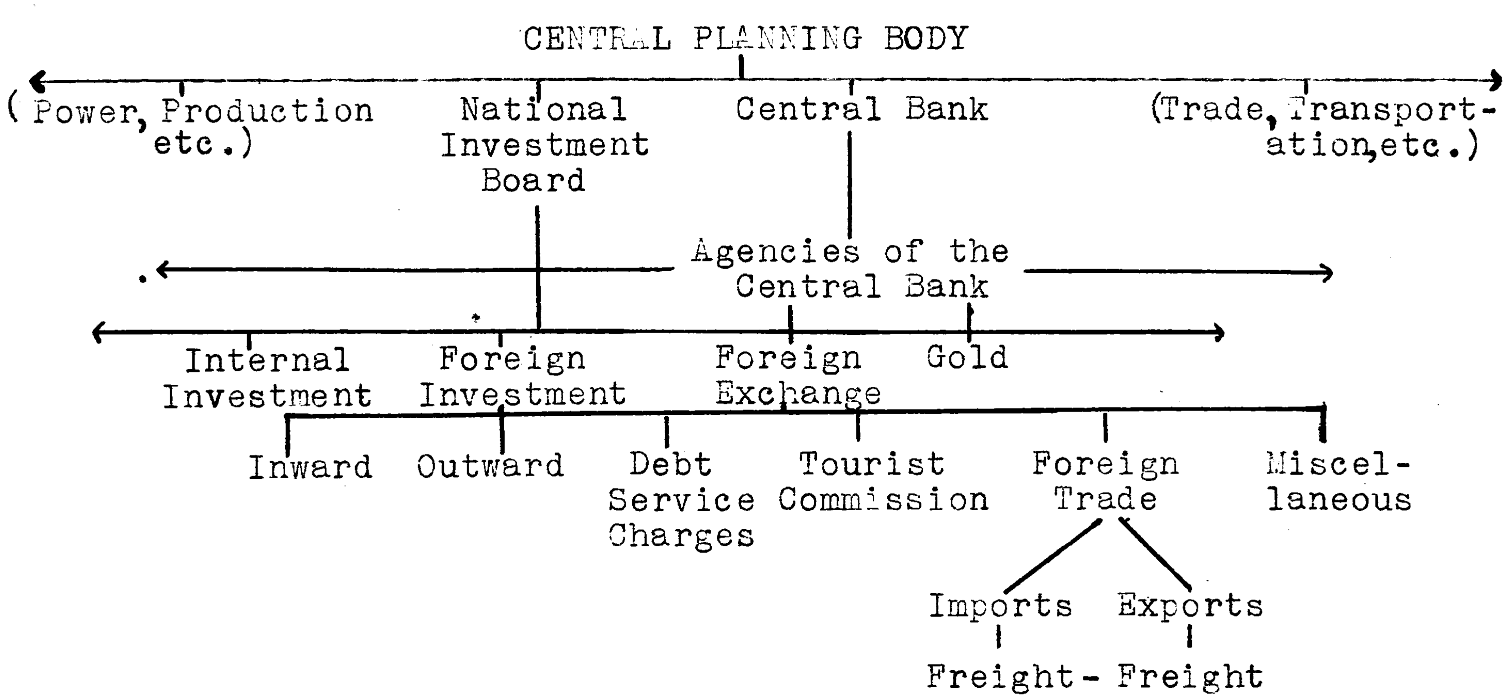
[1] See "General Theory of Employment, Interest and Money", also "World Trade and Its Future", "Britain's Industrial Future".

a temporary expedient, as internal adjustments to correct the causes of disturbances in the balance-of-payments will have to be undertaken.

Proposals for a Plan

In the absence of economic planning a measure of national policy could be worked out and embodied in international trade and transactions. This could be conducted through the medium of trade and tariff arrangements, monetary policy, and a measure of control over capital movements. Broadly speaking, a government could obtain some control over the design of the balance-of-payments - but that is all. It certainly would be preferable to the present haphazard attitude, and would help to bring Canadian international transactions into harmony with internal economic developments - but it would by no means be adequate.

Any adequate control of the balance-of-payments must depend on the existence of a planned economy. It could be organized as follows:



Control of the entire structure of international trade and transactions would be operated through the foreign exchange department of the central bank (or some analogous agency) from which the participating bodies would receive their funds and to which they would hand their receipts. This department, controlling foreign exchange requirements, would see after the adjustment of the balance; and could, by varying its credits and foreign exchange allotments, create the desired adjustment. The various aspects of the balance-of-payments would be adjusted here. The control of foreign issues here, Canadian issues abroad and corresponding service charges would be vested in the foreign investment department, a part of the national investment board (which is responsible for all internal finance and investment). Foreign trade would be centralized in import and export boards and their agencies. This grouping could also best handle freight charges. Tourist trade is of such importance that a special body to handle it would be called for, and miscellaneous items could be assigned to minor departments for their separate categories.

At the beginning of each year, the above mentioned groups would draw up a plan of their anticipated receipts and disbursements for the following year, based on estimated requirements of previous years and proposed alterations in program - which would be submitted to the central planning body and integrated with the general plan and policies pursued. The schedule of their operations for the following year could then be submitted to these agencies.

The essence of control in this sphere would work through the issuance of foreign exchange for Canadian currency, and Canadian currency for foreign exchange. The various organizations concerned receiving foreign exchange will deliver it to the exchange department in return for Canadian currency to give to their internal units, and the organizations needing foreign exchange receiving these funds for Canadian currency. The export and import boards (or analogous agencies) would operate like ordinary commercial organizations within the limits of the plan and any commercial treaties. The export board would turn over its foreign drafts and exchange to the exchange department in return for Canadian dollars to give the export organizations. The exchange department would also receive all foreign money and exchange brought into the country by tourists, gold sales and minor items through the eventual purchase of Canadian currency directly, or indirectly through the banks. In return, the tourist commission would be allowed a certain amount of foreign exchange for Canadian tourists and travellers abroad. Interest and dividend payments would be met out of this supply of exchange, and the remainder would be turned over to the import board and other minor agencies. It is obvious that all this will not work out smoothly and that a certain amount of juggling between the various accounts will be necessary, although, barring unforseen disturbances, the broad outlines of the original plan will be followed. As can be noticed, capital items have not been included in the above. The reason for this is that such items will play an important role only as balancing factors in periods of unusual disturbance.

Summation

The crux is that hitherto there has been neither plan nor policy in Canadian international trade and transactions. A consideration of the domestic scene and long-term views have been signally lacking. If anything is being pointed out, it is that not just an adjustment of the balance-of-payments is desired, but one that is accomplished without strain or hindrance on economic prosperity and progress. The story of the balance-of-payments shows that in the early period a heavy foreign debt was piled up. It was assumed that the automatic functioning of the economic system would enable this to be borne without strain, (or the matter was neglected altogether). Such has not been the case. The fluctuating nature of the Canadian economy and the vulnerability of the Canadian export trade to external price and market disturbances make this debt and its service charges singularly burdensome. Flexibility and easy adjustment are prime objectives in balance-of-payments operations. Obviously, a simple solution cannot be expected. A planning authority can hope to mitigate this by seeking to introduce a measure of stability and internal economic adjustment. The initial step in any satisfactory scheme for control of international economic transactions is their integration with the internal economic structure,based on a comprehensive scheme of national economic adjustment. Once this has been accomplished, and the role of external economic activity has been determined, the control of the balance-of-payments may be undertaken with good hope of success. This will probably require exchange control, investment regulation, trade and tariff treaties and the like, which although they may properly be called interferences with economic liberty, would seem to be warranted if, under proper management, they should result in greater economic welfare and security for the country.

Table I

NET ASSETS[1] OF CANADIAN INSURANCE COMPANIES HELD ABROAD.
December 31, 1926 - 1936.

(millions of dollars) Calendar years

Year	All Countries	Great Britain	United States	Other
1926	220.5	28.7	154.3	37.5
1927	253.6	32.9	177.5	43.2
1928	310.4	40.3	217.3	52.8
1929	386.5	50.2	270.5	65.8
1930	435.4	56.6	304.8	74.0
1931	477.4	62.1	334.1	81.2
1932	494.4	64.3	346.0	84.1
1933	467.2	60.7	327.1	79.4
1934	483.2	62.8	338.3	82.1
1935	532.8	69.3	373.0	90.5
1936	603.0	79.0	416.0	108.0

[1]Assets minus liability other than reserve (i.e., net liability outside of Canada under assurance, annuity and supplementary contracts in force for payments not due, dependent on life, disability or any other contingency or on a certain term).

Source: British and Foreign Capital Invested in Canada, 1926-1936. (Dominion Bureau of Statistics Bulletin)

Table II

INTEREST AND DIVIDEND RECEIPTS ON CANADIAN INVESTMENTS ABROAD (1927-1933)

(millions of dollars) Calendar years

Year	Total	Great Britain	United States	Other Countries
1927	80.7	4.9	47.9	27.9
1928	94.9	5.6	58.7	30.5
1929	110.7	6.5	66.5	37.6
1930	112.9	8.7	65.0	40.9
1931	101.4	5.7	58.4	37.3
1932	93.8	5.1	55.0	33.6
1933	88.3	5.0	50.7	32.5

Source: Agenda on "Balance of International Payments..." prepared by the D.B.S. for the Conference of Br. Commonwealth Statisticians, 1935, pg. 63.

Table III

THE PROPORTION OF INTEREST AND DIVIDEND PAYMENTS TO AMERICAN AND BRITISH INVESTORS.

Percentage Calendar years

Year	Payments to G.B. to total payments	Br. investments to total inv.	Payments to U.S. to total payments	U.S. investments to total investments
1927	40.7	42.5	57.3	55.3
1929	36.1	40.5	61.2	57.4
1933	32.7	38.7	64.2	59.4

Source: Same as above, pg. 62 (adapted).

Table IV

THE PROPORTION OF INTEREST AND DIVIDEND PAYMENTS ON GOVERNMENT AND RAILWAY SECURITIES.

Percentage Calendar years

Year	Payments on govt. securities to total payments	Payments on rwy. securities to total payments	Payments on govt. and railway securities to total payments.
1927	25.1	30.8	55.9
1929	20.6	27.7	48.3
1933	25.9	24.1	50.6

Source: F. Knox, Excursus in "Canadian-American Industry" adapted from table F. pg. 310.

Table V

ANNUAL INCREMENTS OF FOREIGN INVESTMENT.

Plus : : Minus

(millions of dollars) Calendar years

	Outside investment in Canada	Canadian investment abroad	Net increment	Balance of capital account
1899-1900	31.7	2.9	34.6	34.6
1900- 01	37.2	28.7	8.5	8.5
1901- 02	42.3	3.3	39.0	39.0
1902- 03	54.7	16.7	71.4	71.4
1903- 04	61.9	21.2	40.7	40.7
1904- 05	112.6	15.8	96.8	96.8
1905- 06	105.3	12.5	117.8	117.8
1906- 07	95.1	21.8	116.9	116.9
1907- 08	222.1	92.5	129.6	129.6
1908- 09	253.4	33.6	219.8	219.8
1909- 10	313.2	25.9	339.1	339.1
1910- 11	348.4	3.5	344.9	344.9
1911- 12	321.1	0.2	321.3	321.3
1912- 13	546.7	18.8	527.9	527.9
1913- 14	307.6	16.5	291.1	333.3
1914- 15	180.1	72.5	252.6	287.8
1915- 16	305.7	211.5	94.2	85.4
1916- 17	169.9	228.0	58.1	59.2
1917- 18	43.0	150.1	107.1	121.4
1918- 19	101.2	22.0	79.2	80.9
1919- 20	233.3	47.7	281.0	309.0
1920- 21	35.9	96.3	132.2	327.0
1921- 22	301.0	26.2	327.2	342.1
1922- 23	207.3	11.0	196.3	199.9
1923- 24	201.3	51.4	149.9	205.0
1924- 25	98.5	120.1	21.6	33.6
1925- 26	251.4	232.5	18.9	16.8
1926- 27	293.6	161.5	132.1	4.2
1927- 28	314.6	77.9	236.7	82.0
1928- 29	336.6	36.6	300.0	153.9
1929- 30	360.2	23.8	336.4	315.3
1930- 31	128.1	14.1	114.0	47.1
1931- 32	113.6	50.0	63.6	11.4
1932- 33	40.3	18.3	22.0	26.5
1933- 34	51.2	35.2	16.0	115.8
1934- 35	67.6	34.5	102.1	153.5
1935- 36	63.8	16.6	80.4	253.7

Sources: Table 12, page 46.
Table 21, page 67.
Table 22, page 69.
Table 31, pages 113, 114, 115.

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