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The Effect of the War on Canadian Trade

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AT a special meeting of the Canadian Club, held on the 5th October, Dr. Adam Shortt said:

Mr. President and Gentlemen of the Canadian Club of Toronto,—I feel highly flattered, indeed, at being invited to return to Toronto and address another meeting of the Canadian Club. The subject on which I wish to speak to-day, the effect of the war on the Canadian economic situation, is one which might be dealt with from many points of view. It might be taken up somewhat in detail statistically, and trade by trade. But I prefer, in the limited time at my disposal, to deal chiefly with some of the underlying conditions that affect this great question. And in doing so, I wish to endeavor to analyze some of the features which seem to me to require very careful consideration on the part of Canadians, both as to the method of dealing with the problem or crisis that immediately confronts us, and the conditions necessary to the resumption of the forward movement when this terrible cloud has passed away.

I think it may be said without any question or controversy that the outbreak of war has resulted in all the devastation that was anticipated. It has been demonstrated, at many times and on many occasions pointed out by business men and students of affairs, that the world had been growing more and more into an interrelated mass of interests, where they are all knit together in such a way that it is no longer possible for any power, even of second or third rate quality, to stand aloof and pursue the even tenor of its way if any other powers are involved in a great conflict.

Take a couple of examples, outside of the countries immediately involved. Look at the effect of this war on the United States and on Switzerland. The United States has

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not had occasion to raise any fund or to collect any army, even for defensive purposes. Switzerland had, of course, to mobilize her small army to protect herself as neutral territory. The United States has been injured by the decline of securities, and by the effect upon the disposal of the manufactured goods of the United States and upon the importation of indispensable raw materials for her manufactures from the countries involved in the war, from Britain, Germany, Austria, and to some extent Russia, whose trade is shut off on the Baltic. The fact that neutral ships, such as Norwegian and Danish, still have the right of trading mitigates that to some extent. If the war is prolonged, unless Germany is phenomenally successful, she will not be able to carry on her trade, get supplies abroad, and bring goods home.

Financially the United States has suffered enormously, because, although I see in an estimate which is pretty correct apparently, that she has about twelve times as many securities owned in her own country as abroad, yet it is the twelfth part which will certainly return home if they try to maintain prices there, which will demoralize the general financial conditions. That is the way in which even a country with immense natural resources like the United States suffers, though less dependent than any other of the nations of the world.

Taking the other example, of Switzerland, a country influenced not quite in the same way as the United States, but which has invested hundreds of millions in electric railways, and hotels catering to the tourist traffic, and bringing in through recent years one of the finest revenues, nationally and individually of any country. You find that country to-day blasted because of the war and of the conditions likely to follow, which are going to destroy the tourist traffic. Thus Switzerland, without lifting a finger, is required to suffer enormously, because certain militarist people have insisted on showing what they can do!

Now, I am a great peace advocate, a great believer in peace; but I cannot understand some of my fellow peace advocates in their desire to have this war shortened before it is definitely determined what is to be the future of the world on this question of armaments and militarism. (Applause.) I don't want to go on into that further than to say that when it comes to the case of Canada, in considering what her future may be one must ask: How is she to expand and develop, if there is to be no guarantee of her future against the increase of a purely militarist influence, ignorant of conditions of political, economic and social structure. A dominant military governing body is a highly specialized class, look-

ing clearly and naturally to its own professional interests. A military organization is an excellent servant for a nation but a very dangerous master. I believe in Disraeli's proposition, that England should keep a highly trained, small military organization, which would take in hand and arm the general body of the people, if any necessity arose, but which never should have any considerable influence on the politics of the country. (Hear, hear.)

Now, if we have to face a dominant militarist future, what I have to say to Canadians is this: Keep as near to the ground as you can; that is, don't expand into foreign trade and get out of bounds, because the reaction will be correspondingly terrible, and if you get too much foreign capital the obligations on the loans will necessarily cripple and destroy your country. Even already, I fear, by negotiating loan after loan our credit may be very seriously influenced at the present time.

Considering the present condition of Canada, let me first draw your attention to the fact that the present situation is not altogether due to the outbreak of the war. In other words, I wish to distinguish between the conditions in Canada just before the war and after war was declared. You who have traveled up and down this country or who have kept track of events must have been convinced by hundreds of obvious warnings, that we were overdoing speculative investment. We were building up great cities, equipping them splendidly, with pavements, sewerage systems, electric light and every civic convenience. The demand for manufactured goods for these cities of the West chiefly stimulated the factories of the East. Instead of putting the thousands of immigrants who have been coming to the country upon the lands to cultivate them, they have been allowed to stay in the cities, and dig sewers or become amateur bricklayers, carpenters, or hod carriers. Under the most solemn promises to the trades unions these people were brought to the country to go on the land. But in the cities they get much higher wages than any farmer could afford to pay them. I have seen the most fertile sections of Canada growing nothing but weeds and real estate stakes. (Laughter.) In Vancouver, for example, during the boom two-thirds of the food supply was brought from outside of Canada altogether! Farmers, indeed, would have been crazy to attempt to hire men at the rates they could get in the cities, wages of \$3.00 a day for the poorest unskilled labor and upwards to unknown heights. They could not grow and sell vegetables on that basis. It could not run long thus, but that was the condition of things,

mostly as a direct result of our borrowings abroad. We had made immense investments, which were not going to produce immediate returns to the country. In consequence a vast amount of invested capital must continue to be idle or nearly so till the productive output of the country catches up. (Hear, hear.)

This is a situation which comes back on us very hardily. There is no use blinking it, and above all, there is no use in charging it up to the war, because we were on that back track very considerably before the war broke out. Therefore when I speak later of remedies for the conditions caused by the war, I don't do so as a means of entirely meeting that more or less unbalanced development which we made before the war. I have nothing to say against the way in which these cities were built, or against a good deal of the development that has taken place, but what I do say—and what I have said to Canadian Clubs in the West—for I don't believe in saying behind a person's back what I would not say to his face—What are you going to do with these cities when you get them built? Of course you know the Western way of meeting a remark like that: "Oh, well, if you begin looking at it that way, you might as well go back East! You have to feel the spirit of the movement: that will carry you along!" And of course it did! (Laughter.)

I have read of certain very clever Hindu jugglers, who are reputed to have a way of sitting down in an open square amidst a circle of bystanders. Taking a little plant from a pot they set it in the ground, and by some form of hypnotism the onlookers see the plant rapidly grow and grow above their heads and the house tops. Presently the juggler produces a little monkey which climbs up the plant, and when it gets to the top it pulls the whole plant up after it and everything vanishes! (Laughter.) Now that is a wonderful gift, of course. But in none of my researches on these subjects have I been able to discover that the juggler was clever enough to sell the plant to the bystanders before it had vanished. Yet that is what many of our speculators have been able to do! (Laughter.) Many of you have doubtless been taken out in an automobile to the suburbs of some of our western cities and have had the real estate agent explain to you their possibilities, passing swiftly in his argument into certainties. You see nothing to start with but bare prairie, but under his hypnotic eloquence you perceive, millions in value growing up before your eyes. You are then given a chance to get in early. That is the juggler *plus* the capacity to sell his vision to someone else. Our Single Tax friends

say that the community gives the real estate its value; but they can't have listened to these agents or observed the practical effects of their persuasive tongues. And their victims are so greedy that they sell, and resell, and sell again, and the last man to whom they sell is the man ultimately sold. (Laughter.)

This brings me to another point, namely, what is the real nature of wealth and capital? Many people cannot understand what has happened to all the wealth and capital in the West. There one found millionaires all around one. They were selling land at fancy prices, and getting first payments on it. Everything looked solid and sound. You consulted the assessment lists, and you saw how enormously the millions were increasing. That looked like solid wealth. If you sold your land for cash you got good bank money, and you can draw on it to this day. There are, however, two aspects of wealth or capital, and these two aspects are interchangeable so long as you can persuade people to freely give the one for the other. These are, on the one hand, wealth or actual goods and capital that really produces wealth, and on the other, simply prospective wealth. Now, prospective wealth, though not presently actual, may be realized in course of time. But if it never comes to the point of realization, it vanishes utterly. The whole question is one of the human mind; it is the estimate put upon the thing that gives it value. That is where the peculiar psychological, social factor comes in. You may have two or three hundred or as many thousands of isolated people, who have never seen any prospective values fail, who, for instance, have seen the value of land go up and up without a break. Thus two years ago you could not find a soul in some of our western cities who had lost any money by investing it in land, and if you find that going on for a number of years, you cannot argue against these solemn facts. (Laughter.) Moreover, every time that prospective value has gone on to the next stage it has become the basis for one more step in prospective value. That applies to everything. You float a company, a railroad, a mine, and if the prospectus takes, see what an immense amount of prospective value is produced, as for example in silver mines in Cobalt, or oil wells near Calgary. Some of the silver mines are realizing prospects, as may be the case with some of the oil wells in time. But my point is, that all that prospective wealth, while the development is going on, is simply in the minds of the people. When you have paid over so much a day to the workers, they spend the money for food, clothing and housing. The people who pay it out expect to get it back with

profit when the oil gushes forth. But if the oil does not gush forth, you can't take away from the workers the food and clothing they have purchased with their wages, and the savings from their wages are not affected by the failure of the enterprise on which they were employed, they have gone into the bank, in good solid money while the prospective values for the investors have vanished. It does not matter whether you pay your money for a lot on which nothing has been done, or for a spur line of railroad, electric lighting, mining machinery and apparatus to develop a mine, if your anticipations are not realized the amount of wealth you invest, as far as the investor is concerned, is gone as utterly and hopelessly as the millions that are being thrown away in Europe in the shells and bullets that are being blown into the air and can't be recovered again. But whether prospective wealth is fully realized or vanishes into thin air, the real value or wealth exchanged for it, has the same influence on the markets for labor and goods. The very large amount of capital sent to this country for investment before the war, came to these shores not in the shape of gold,—a mere fragment of it came in that form—but in the shape of goods. The enterprises which were financed by that borrowed money gave employment to our working men. There was also a great demand for raw materials and machinery. But when you analyze the cost of the latter you find it consists of raw materials and wages. The people who were making the goods or building the cities and railroads were earning their money,—and spending it. There were two effects of this great expenditure: One was to curtail the exports of Canada, the food products and raw materials, grain, meat, lumber, etc., inasmuch as these were needed for consumption in the country. The other was to increase our imports through the need of goods which we could not or did not produce in the quantities required. Thus the borrowings in England for investment in Canada had the effect of cutting down our exports and enormously increased our imports, and the balance in extra imports represented the form in which the borrowed capital came to our shores. Now these imported goods have still to be paid for and all we have met is the interest on them, and the interest paid does not diminish by one cent the capital we have obtained. But only if the labor and raw materials for which we have exchanged the imported goods or capital have been well invested shall we be able to return the capital some day with profit to ourselves. If unwisely invested the effect will be to give us such a black eye in the financial circles of Europe

as we have not had for years. This was our situation before the war broke out, and the war has simply rendered it somewhat more serious by shutting down abruptly on our further borrowings to complete enterprises still unfinished. We are thus called upon more or less suddenly to balance our consumption by our production. To do so requires much readjustment for our cities are over-built and our country districts under-developed. That this readjustment was already in process before the war is evident from the following facts. For the month of July this year our imports fell off \$16,000,000, and for the year ending with July, \$123,000,000. In consequence also the revenues of Canada fell off \$3,000,000 in July and \$20,500,000 in the year ending with July. On the other hand our exports increased in July \$8,000,000, and during the year, \$66,250,000. That is in line with what I have been saying. When there comes a reaction after a boom, or even a slowing down, we can't pay out lavishly to carry on enterprises which are not immediately productive: we have neither the money to bring in imports as we did before, nor have we the money to pay for the consumption here in Canada of so much of our own produce; so our imports are cut down, and our exports are increased. This is a spontaneous adjusting of our affairs, and if that goes on we shall get to a stage when we shall not be running our heads any further into debt, but preparing to get out of it. But this readjustment means hard times for many people who prospered on our great borrowings, and they object to being forced to readjust. "Business as usual," they cry "not business on a new basis." Some of these people say, "If it is true that borrowings from Britain are falling so that we can't keep on building railroads and cities and maintaining the labor and industries dependent on these lines of expansion, what is the matter with our own banks? Can't they lend the capital shut off from abroad, especially if backed by the Dominion Treasury and its paper? Has not parliament granted the necessary power to suspend specie payments?" There is nothing then to prevent the banks from advancing moneys, and handing out Dominion notes to the extent of hundreds of millions to take the place of the borrowed money from Britain, and so keep things going, or at least let ourselves down very easily. Observe, however, that if the banks could come to the rescue of the situation, and could maintain production for all the city building, railroad building, and similar expenditures of capital, this would continue the situation produced by our borrowing hundreds of millions in England, and keep our

importation at the enormous difference of three hundred millions or so above our exportation. But do you expect that the people of Britain and the United States, our chief creditors, are going to take Canadian bank notes or even Dominion Treasury notes for that? No, indeed! They want something negotiable in their respective countries, and unless you can furnish it in coin or in bills of exchange drawing against exports there will result a proclamation of our bankruptcy.

It is foolish, therefore, for us to dream of keeping things going in that way. In the face of conditions as they were shaping before the war and much more urgently since it has burst upon us, it is necessary for Canada to increase its production of goods in demand and decrease its expenditure on works largely unproductive for the present or immediate future. But beyond this there is only disaster in store for us if we attempt to pervert the proper functions of our banks or of the Dominion Treasury in its issue of Dominion notes. The fundamental function of the banks is to facilitate exchange, not to create capital. To this end a bank must keep its funds in fluid shape. It can discount short time notes but never invest in mortgages. The monthly bank returns show that the deposits and discounts greatly exceed the paid-up capital and rest fund. The discounts, therefore, must be in condition to meet the deposits. They cannot, therefore, be used to promote those permanent investments for which British capital was being borrowed. To tie up bank funds is to invite a run on the bank which could not be met. Suspension of specie payments, inconvertible paper currency and increasingly inflated prices are the natural sequences. This was experienced in the Southern States during the war. It was said that at the beginning of the war a man took his money to market in his pocket and brought home his goods in a wheelbarrow, but at the close of the war he took his money to market in a wheelbarrow and brought home his goods in his pocket. (Laughter.)

You cannot by manipulation of the banking system create one more mouthful of food. Yet one real function of the banks is to facilitate the movement of the crops. They may enable a man to purchase a large amount of grain in the West, ship it to Winnipeg or Fort William, or on to the seaboard and finally to Britain where it is ultimately paid for through bills of exchange and the customer and the bank are ready to start over again each with a share of the profit and the loan restored to the bank. The Dominion Government again can neither pay its own debts nor furnish capital

to others out of its Dominion notes. The proper function of these notes is to facilitate exchange by furnishing a convenient and reliable currency and a medium of exchange as between the banks themselves. It is nonsense, therefore, to criticize the Government for not handing out indefinite quantities of Dominion notes to assist municipalities in completing their civic enterprises, or to enable the Dominion Government itself to continue extensive public works. Canada has already passed through critical financial periods when her chief banks were wrecked, her municipalities and railroad enterprises on the verge of bankruptcy and her public credit seriously lowered. The consequences followed us for a whole generation. All this nonsense, therefore, that is sometimes talked in the papers threatens the vitals of Canadian credit and sound finance. (Hear, hear and applause.)

To repeat, the war has simply, so far as Canada is concerned, enforced a condition previously existing and which necessitates financial readjustment. Fortunately that is easier for this country as a whole than for most other countries whose trade was more extended and on higher and more specialized lines. Already the war has increased the value of some of our chief products, such as grain and food supplies generally. Had more of the immigrants who came to Canada gone into farming, as promised, there would have been a better proportion between urban and rural population than at present and manufacturing would have been better supported by a prosperous agricultural class than by stranded city builders and those dependent on them. Borrowed capital built the cities and carried them beyond present needs. Now, agriculture and other natural industries must restore the balance. Meantime, markets, whether those left by the war or created by it, chiefly favor the natural lines of Canadian readjustment. High wages in non-agricultural lines must fall, while the profits of agricultural industry must rise; and it were the part of wisdom for the city worker to recognize this in time and begin the process of readjustment before dire want forces the situation.

Again, we have as a nation, to carefully take stock of our national credit, to reorganize it and conserve it. When this war is over, and when an immense amount of the real wealth of the world has been dissipated, and an enormous amount of the prospective wealth of the world has vanished into thin air, when the capital for investment is relatively small and the claims for it very great—we cannot afford to have our country in a state where we cannot command that capital

by reason of the doubtful security which we have to offer. Our railroad system must be placed on a permanent and rational basis for the future.

Our manufacturing should have a rational programme with relation to our natural resources on one hand and natural markets on the other. Our municipalities with their inflated land booms and consequent difficulties as regards civic improvements and methods of finance must be more carefully studied. There are many municipal, industrial, and other enterprises caught in an incomplete condition and with their prospects greatly impaired. To complete them would be in numerous cases mere waste of capital when it could be better employed. Better simply roof them in, and wait till they are needed for either the original or some other purpose when conditions are more favorable.

The question of capturing German trade is a very mixed one. I discussed it with several people in Britain, who were practically interested in such trades. I found those were most skeptical about it who were most naturally in a position to take German trade. They knew the advantages the Germans have in various lines owing to raw material, cheap labor and technical institutions. Many of their products are absolutely indispensable in the production of certain things both at home and abroad. The United States and Great Britain would take years to produce such articles, and by the time they were ready, the Germans would be back making them,—unless you are going to imitate the Germans in destroying all the plants in the country. When this war is through, these factories, mines and chemical works will be there ready to start up again. Granted that the Germans will have less capital and less labor, the capital will gradually come again, and the Germans will have to be a more self-sacrificing people, working for lower wages, even at first for a living merely. Unless therefore you are willing to cut down your wages so as to compete with them, there would be little chance of capturing much of their trade beyond Canada at least, which is the limit of any protective barrier which may be set up. Canada, in virtue of its native resources and home market, has the opportunity of competing with the world in several industries, it can do so in agricultural implements satisfactorily, but there are many other lines in which we cannot hope to do so.

I have tried to show what are the conditions affecting our present situation as they existed before the war. I have indicated the terrible destructiveness of the war in cutting down capital and industry. We will have to revise our bal-

ance of interests therefore. I have urged, first, that in order to even things we must have greater national production; and secondly and most important, we must carefully preserve our credit as it stands in the face of Europe, and be prepared to offer thoroughly sound propositions when the new development comes, that we may be ready to take advantage of it and go forward with it. (Applause.)