

(December 4, 1913.)

The Financial Outlook in Canada.

BY SIR GEORGE PAISH.*

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

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

Of course, no one acquainted with the natural wealth, the potential wealth, of Canada has any doubt about its future. Indeed, most people who have given thought to the matter expect that the course of affairs here will resemble very closely the course of affairs in the United States over the last century. You will remember that that country made enormous progress from decade to decade, but usually after periods of expansion lasting about ten years reactions occurred, in order to give the country time to recuperate. In a somewhat similar manner Canada moves on. You made very considerable expansion in the 60's and early 70's; then in common with the rest of the world you made a halt and there was very little progress in the late 70's; in the 80's you went ahead again, building the Canadian Pacific Railway and developing your western country; in the 90's again you halted and made very little headway; now in the last ten years you have made a great leap forward. Your progress in the last

*Sir George Paish is editor of the London "Statist," probably the most eminent financial paper in the world. His clear and sane analysis of Canadian business conditions attracted world-wide attention, and was a real service to Canadians in the business world generally.

decade has indeed been of a most remarkable character. You have built here, in a comparatively short time, two great systems of railway, at enormous cost; you have extended the Canadian Pacific Railway in every direction; you have added a great deal of second track; and beyond this, the old Grand Trunk Company has greatly improved its system. In doing this, you have spent a great sum of money,—I think the amount is not far short of £175,000,000 (175 millions sterling), a very great sum to spend in a short time on railway construction.

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

Beyond the capital that has been invested here in your railways, great quantities have been coming for your municipalities and for all kinds of enterprises. The amount is so great that very few people realize or appreciate it. The Mother Country in the last few years has provided Canada with a sum of no less than 250 million pounds, a sum which you will admit is a very large one. I am told that the United States has also provided a very large sum of money. The result is, that at the present moment the Canadian people owe to Great Britain and the United States, a sum of upwards of £600,000,000, or \$3,000,000,000; over £500,000,000 to Great Britain, and over £100,000,000 to the United States, and it is now up to Canada to provide the interest on this great sum of money.

Even those of us who are optimistic about the future of Canada recognize that with such a great influx of capital it is necessary for the country to go rather slow in capital ex-

penditure for some time in order that the interest on the capital already expended may be provided, and in order also that Canada may not borrow beyond its power to pay interest. For myself, I am convinced that Canada is able to bear its present interest burden. (Applause.)

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

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

For the time being, however, those trades which have gained advantage from this great influx of capital will be slack; on the other hand, those natural industries, such as farming and mining, which will largely benefit from the extension of railway mileage, should make more rapid progress. We shall all be greatly disappointed if they do not. When one marks the great expansion that has taken place in the

past few years in these industries, one gets some notion of the enormous expansion that should come in the next decade or so. You will realize that a farmer when he starts in business has necessarily to put under cultivation a relatively small acreage, but as the years pass, his acreage increases, and we expect that your wealth production will rapidly increase, that in a short time your productions of wheat, oats and the other agricultural products for which you are famous, will immensely expand; and that consequently the burden of interest, which now may be rather heavy, will in a short time become light, so light indeed that you will be warranted in going ahead again in railway construction and in spending still greater sums of money on capital account.

Sir, with regard to the outlook, I am very confident. (Hear, hear.) There is only one matter upon which I am in any way disturbed, and that is the transition from what I may term the existing condition of things, or rather the condition of things a few months ago, to the condition of things when capital will come in less freely. I want you to realize that in the current year the influx of capital shows no diminution. The contraction noticed in one or two directions is due to other causes. The amount of capital provided by British investors has continued to grow, and for the year will reach nearly £60,000,000, and a sum far greater than we have ever previously lent to Canada in a single year. So the reaction is not due to any diminution of the influx of capital from England. You have yet to experience the effect of a really serious diminution in the influx of capital into Canada. I am positive that in a year in which you are most cautious in your borrowings the amount of capital received will still be large; I shall be disappointed indeed if it ever falls £20,000,000 a year. Nevertheless, it is important for business men and traders to realize that the first effect of a period of small borrowings is an export of gold. The gold goes out to countries that continue to sell goods, because traders in the borrowing country, not knowing that it is desirable to buy in a conservative manner, go on buying, expecting the public to buy as freely as usual. I would urge the traders of Canada to act in a conservative manner at the present time. If they do, no avoidable consequence will result from the diminished influx of capital. If stocks of goods are not allowed to accumulate on the hands of manufacturers and traders, there will be no outflow of gold, but just a gentle and gradual lessening of activity till you are in a position to borrow freely again and to take another big step forward.

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

But I want you to realize that the influx of capital into Canada has only been part of a world movement; that during the period you have been getting wealthy other countries have also been going forward, and the amount of capital required to keep the world's trade on its present level is enormous, indeed the demand now exceeds the supply. You in Canada fortunately have held a favorable position, and while some countries of the world have had to do with much less capital you have got a greater quantity. In recent years England has been supplying foreign and colonial countries with capital at the rate on the average of 160 millions sterling a year—in the current year nearly 200 million pounds; but the supply is not equal to the world's demand. The recent Balkan war has disturbed the world's affairs. The outbreak of the war caused great uneasiness. On the continent of Europe cash was hoarded to the extent of fifty or sixty million pounds. This frightened investors. The result is that the amount of capital available to transact the world's affairs is smaller than usual, though we in England have done our level best to make good the deficiency. Hence, the reaction from the recent activity will not be confined to Canada, but will be more or less general. Already the reaction in some of the South American countries is quite pronounced. If you go down to Brazil, you will find there conditions not nearly as favorable as here. We are hoping that Brazil will get through without a worse situation than she is now experiencing. We in England will do our best to help. Her coffee has fallen in price, her rubber has fallen in price, and she is unable to borrow as much as usual. In making this statement to you, the business men of Canada, I hope you will not take any alarm: there is no cause for alarm; but I trust you will act as the captain of a ship would do when the weather is uncertain—take in sail. (Applause.)

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

Then there is another matter affecting the future which I think is very important, the question of the gold supply. I was mentioning a short time ago, that you must see your gold ebb away unless you take in sail in time. Well, already gold is ebbing from Brazil, and already, in the current year, 10 millions of gold has left that country. And it is probable that other borrowing countries will lose some of their supplies. You will realize, that while gold is coming back to us from the borrowing countries, the world's gold supplies are still as large as ever; so that the amount of gold in the international markets will become so great, and money so easy, that the spirit of enterprise will be restored, and not very much time will be occupied in the work of restoring confidence to investors. In brief, while I have referred to contraction, to a halt in things here in certain directions, yet your farmers and those engaged in developing your natural resources will go ahead. In a very short time you will again start on the upward course, and the expansion will doubtless be nearly as great as in recent years. In other words, whereas the expansion during the past ten years has been 150 per cent., I think you can rely on the expansion of Canada in the future being at least at the rate of 100 per cent. every decade. (Applause.)

In moving a vote of thanks to Sir George Paish, Sir Edmund Walker said:

Mr. President, and Gentlemen.—It is a very great pleasure to me to rise to move a vote of thanks to Sir George Paish. It has been a very great pleasure and a very great instruction to me to be here to-day to listen to him. When I spent three months in England during the past year in what was practically a pretty trying time for a Canadian banker, when about every kind of thing was said about Canada, and all sorts of questions were fired at him, one of the most pleasant and instructive interviews I had was with Sir George Paish. I regard him as one of the sanest men writing on financial matters in England. It is a very easy thing indeed to criticize; indeed a British financial writer has no easier task than to find fault—finding fault seems to indicate wisdom; but to be cheerful, to see the bright sides of things, to see the result as a unity, is one of the greatest qualities. I am glad that this speech has been made to Canadian business and financial men here, because of my admiration for the Canadian Clubs. I was very glad to hear Sir George say so emphatically what some of us have been saying, that beyond a doubt we have come through a trial, but beyond a doubt I am hopeful that we have come through it. If the people are wise and will be

content at this time of halting till we get another great crop, then undoubtedly we shall be safe and shall be in the position Sir George has spoken of, in a position to undertake great expansion again. But we are on trial for awhile, but I should say that it will be for only six months or another year. It is for you to take what Sir George has said home with you. (Applause.)

Mr. W. K. George, seconding the vote, said:

Mr. Chairman and Gentlemen,—There is really very little I can add to what has been so well said by Sir Edmund, except to express my personal pleasure at hearing such a sane statement on the Canadian financial position from one who is looked upon in Great Britain and in Canada also as the foremost financial diagnostician, I am sure, of the Empire. It is certainly most encouraging to hear such a careful, deliberate, sane presentation of our conditions, and must have gone home to every one of us as absolutely true. And it is indeed, most delightful to hear a man in Sir George's position say, that with the possibilities we have in Canada, our halting stage should be short. I am sure it will carry conviction to everyone, and what he said must be of material service in giving the men of this country knowledge as to how best to direct their affairs in the coming years. (Applause.)