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Our Relations to the West Indies

BY T. B. MACAULAY.*

Gentlemen of the Canadian Club.—It is both a pleasure and a privilege to talk over with you, who are among the leading citizens of Toronto, one of the greatest problems of the Empire; and I appreciate that privilege. The outstanding fact that every person would admit, in connection with the commercial affairs of the Dominion to-day, is the exchange situation. It is upon everybody's tongue; it enters into every department of business, and has effects that we little dreamed of a year or two ago.

I propose to approach this question from the exchange standpoint. Here we have, in the United States, the pound sterling selling at \$3.40. In other words, New York exchange is at a premium in London of over forty per cent., forty to forty-five per cent. In other words, it takes in London, \$1.40 to buy \$1.00 in New York—assuming that the pound sterling is in reality worth \$486.23. Now, we in Canada occupy a midway position. The pound sterling is worth about \$3.90; and, on the other hand, New York funds are at a premium of sixteen per cent. Look at it in another way, you see New York funds at a premium of sixteen per cent., and Canadian funds at a premium of twenty-five per cent. in the Old Country. The two just make up,—even up,—because we occupy a midway position that links in precisely with the New York exchange.

Now, in the first place, to what is that due? It is a vital and serious problem. It is increasing the price we pay for everything that comes from the United States, and it is restricting our export trade. What is it all about? I have heard professors of political economy say it is due to the inflation of the Canadian dollar, that our Canadian dollar is not worth as much as the American dollar. Well, let us look at that for a moment.

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Suppose something unexpected happened and Americans were to come to Canada and buy \$200,000,000 of pulpwood and paper; and our own Government should go to New York and borrow that amount, what would happen? Immediately the Canadian dollar would jump up close to, if not right to, par with the American dollar. That shows that it is not, except possibly to a small extent, a question of the depreciation in the value of the Canadian dollar. It is a question of trade. Exchange is absolutely and primarily a question of trade. Trade, in its ultimate analysis, is barter. The farmer who sells his wheat nominally for gold doesn't want the gold, but what it will buy. Gold is merely a chip in the game of bridge. (My friend, Mr. Raney, says I should have said poker.)

I think that will enable us to get at the real value of gold. It is a medium of exchange. It is not the end. Now, why has this situation arisen? It has arisen because our people, and the people of the Motherland, have for a very long time been buying from the United States very much larger values of goods than they have been selling to that country. "But," you say, "that had been going on for a long time. Prior to the war we were buying from the United States as we are doing now, buying chiefly from them and selling chiefly to the Mother Country—and we had no exchange problem. What is the explanation?" It is this—prior to the war, the Mother Country and its citizens had enormous amounts of American investments which had been accumulated during the previous century. Up to 1853 Great Britain exported much larger amounts than she imported. That excess of exports and the earnings of her shipping and banking—she was the banking centre of the world—had made Britain the great international money lender of the world; and her people had huge amounts of American securities, as well as securities of other countries. Therefore, when her people bought from the United States larger amounts than they were shipping to that country, there was a large amount of interest on these securities accruing in New York which could be placed against these purchases. If the interest alone was not sufficient, there was principal that could be sold; and everything could be kept even.

Now, all that is changed. During the war, in order to raise the finances necessary to save the United States as well as the Empire, the Mother Country borrowed huge amounts in the United States and sold the great bulk of her liquid

American investments. Now, there is not that huge amount of interest accruing every year in New York to pay for purchases there, and the liquid securities that could be sold have largely passed into American ownership. Now, the Mother Country has not enough accruing to her in New York to pay for her own purchases there, to say nothing of helping Canada.

We in Canada were vitally interested in these American investments of the Mother Country because, prior to the war, the way our sales was financed was as follows: we bought chiefly from the United States and we sold chiefly to England, and in payment of her debts to us England gave us drafts on New York, which we at once turned over to New York in payment of our purchases from that country. It was a three cornered arrangement, but now that arrangement is no longer possible because the Mother Country can no longer give drafts on New York, even for what she purchases herself. Well, what is going to happen? The question is, what is going to be the end of this mounting rate of exchange? It amounts to this: there is an adverse balance of trade. When Canada or the Mother Country buy from the United States more than our shipments there this excess of imports over exports has to be paid for in some other way than in barter. Trade is barter and barter comes down to a question of paying for goods you get. You have to pay for what you get in other goods, or in securities, or mortgages, or something of that kind. The Mother Country is being drained more and more every day of her remaining American securities, and your own Canadian securities are passing across the border line in a steady stream to meet your excess of purchases from the United States. Now the Mother Country has not an inexhaustible supply of these securities. The great bulk of them went during the war, and those remaining are passing out every day.

It was necessary to stimulate the owners of these securities to sell; or, if they were inactive securities, it was necessary to stimulate American purchasers and investors to buy; and the rate of exchange, which is a premium on American exchange so far as England is concerned, and a discount on British Exchange so far as the United States is concerned,—is a means of letting English people know that if they have an American security they can now get \$140 for what was looked upon as worth \$100. Naturally, they sell. Take the case of Canada and our Canadian Government bond. Take a bond

selling at par in Toronto. In order to tempt the purchaser on the other side the exchange enables the American to get that bond at \$850 instead of \$1,000.

The premium or discount, as the case may be, is the way in which the laws of supply and demand try to right themselves. It works in another way. It stimulates not only the export of securities, but the export of goods. It tends to restrict the import of goods. It allows nature to work. I have sometimes said that I would not have any objection at all if the premium on American exchange went up to twenty per cent.—I said that, I might add, when it was at eight or ten per cent., and I didn't expect it to go to twenty per cent.—because it would automatically tend to restrict our purchases from the United States and make us more self-centred. It would automatically encourage our purchases from the Mother Country, because our money would go so much further there than in the United States; and it would automatically encourage the people of Great Britain to buy from us, because for every \$100 of value they would get from the United States they would get \$116 from us.

It also tends to encourage even American manufacturers to manufacture in Canada for their export trade. When I was in Hamilton the other day, I had a little incident of how that was working. One man said to me, "I know of an order of at least \$100,000 that, year after year, went to the United States; but now it has been transferred by the American concern to its Canadian branch because of the exchange situation, and will now be manufactured in Canada." The rate of exchange is nature's way of righting itself—it represents the laws of supply and demand at work. But there is one disadvantage that I cannot look upon with equanimity. While all this is a benefit to Canada in a way, is building up Canada and making Canada more self-centered and uniting her more closely to the rest of the Empire, before that is accomplished a terribly large amount of Canadian securities will have gone across the line; and I cannot view with equanimity the fact that Americans are going to hold the purse strings to such an extent that we will become a debtor nation. Therefore, the exchange situation has desirable features and undesirable features.

Well, is there a cure? The only cure, gentlemen, is that we shall buy just as little as we can from the United States and just as much as possible from the Mother Country and the rest of the Empire. There is no other cure. Every man who does anything to switch a Canadian order from the United

States to the Mother Country does a patriotic service to Canada. He does it for two reasons. In the first place, he is giving money to the Mother Country which she can use in purchasing from us; and he is helping to maintain the exchange rate—which is vital to us, because if exchange were to collapse so that the Mother Country could not pay for our sales to her, what would become of us? What would become of our farmers, of their wheat and flour, their pork and butter and cheese, and those things? What would become of our manufacturing if our industries could not export? It would be a sorry day for Canada, for every class in Canada, if our exports were to collapse; and they would collapse if sterling exchange collapsed. The lower sterling exchange falls, the more handicaps does our export trade have, although it hasn't yet come to the point of being stopped. In the next place, the man in purchasing from the Mother Country has avoided adding to the adverse balance of trade with the United States, and avoided adding to the premium on American funds—which we don't want any higher than it really must be.

But now we come to another question. I hear some of you say "It is all very well to say 'Buy from the Mother Country,' but we can't. There are only certain things the Mother Country can supply; and, even of things she can in normal times supply, she cannot give everything we want at the present time." Most of these things are true. The Mother Country had five years of war, during which all her industries were put at war work. The Mother Country has great leeway to make up; and, besides that, she has starving people close at hand wanting everything she can supply. The Mother Country is taxed to meet the demands on her for export goods. It is true that we cannot get all we would like, but it is coming. It won't be long before she will be able to give us something.

But, gentlemen, there are things the Mother Country cannot give us. There are things we purchase in the United States which cannot be bought in the Mother Country. Can Britain give us cotton, or sugar, or tropical goods of any kind? No. We have been getting those things from the United States. If we must get them from any place else, we must not look to the Mother Country, but to other parts of the Empire. It has been well said, and a truer thing never was said, that the British Empire within her boundaries has enough raw material and resources to make her absolutely independent and by far the most prosperous nation in the world.

Take, for example, the question of cotton. At present we

get nearly everything from the United States. But think of the possibilities of the Empire. There is a good deal of cotton grown in the West Indies,—in Egypt; but just think of the possibilities of Africa. We should not have a shortage of cotton if the British Empire's resources were developed as they ought to be developed, and they are not developed because of the foolish trade policy of all parts of the Empire up to the present time. We have treated each other almost as if we were strangers, instead of partners in one Imperial family. I do not want to get into any discussion of trade affairs, but, while that is true to a large extent of Canada, I like to think that we led the way in giving an Imperial preference. But the Mother Country, and to a large extent all parts of the Empire, have just looked to their own little local interests and have failed to grasp the vision of the Empire as a whole; and we have not been co-operating as we ought to have done.

I will give you a little illustration. I am now coming to the question of the West Indies. Take British Guiana. The latest figures I have for that colony are those of 1917. In that year, British Guiana sold to the United States, £116,000 of goods, and she bought from the United States, £843,000. She sold to Canada, £862,000 (mostly sugar), and she bought from Canada, £350,000. For every dollar that the United States bought from British Guiana, British Guiana bought from the United States, \$7.27; and for every dollar Canada bought from her she bought from Canada, forty-two cents.

Now take the figures for the British West Indies combined, using again the figures for 1917. I will take their imports of things that Canada can supply and mention just what amounts came from Canada in that year:

Breadstuffs: They imported \$7,000,000; of which \$3,875,000 was from Canada, or 55 per cent.

Fish: They imported \$2,070,000; \$1,287,000 from Canada, or 62 per cent.

Butter, cheese, etc.: They imported \$970,000; \$127,000 from Canada, or 13 per cent.

Soaps: They imported \$900,000; and from Canada, \$22,000; or 2½ per cent.

Paper: They imported \$500,000; and from Canada, \$103,000, or 20 per cent.

I want to tell you about that last item. I mentioned these facts before the Canadian Manufacturers' Association; and, in talking to paper manufacturers, these facts about paper got home. As a result, several paper fellows got together and

they are going to capture every dollar of that paper business for Canada. That is the right spirit. That is the way we have to go about it. But let me continue.

Coal: They imported \$2,850,000; and from Canada, \$147,000, or 5 per cent.

Meats: (for Canada is a meat-producing country). They imported \$1,700,000; and from Canada, only \$12,600, or $\frac{3}{4}$ of one per cent. (I wonder what our Ontario Government thinks about that.)

Lard: The imported \$520,000; and from Canada, \$235 or $\frac{1}{20}$ of one per cent.

From all these goods combined, goods which Canada could give as well as the United States, they imported \$35,883,000—and Canada supplied just \$7,059,000, or a little over 20 per cent. Gentlemen, doesn't that show what enormous possibilities there are down in the West Indies for our people?

Now, let us see what we can do for them. Our imports in the same year, of sugar, molasses, cocoa, coffee, rice, tropical fruits, and other things which the West Indies can supply—were \$108,000,000 and we only took \$22,500,000 of that from the West Indies. We imported \$108,000,000; and \$86,000,000 of that we bought from other countries.

Gentlemen, here are two parts of the Empire, two members of one big Imperial family; and they are dealing with stranger countries instead of with each other. If we look at the United States, we see how they are situated. Why has the United States got such a great advantage over us? Because the United States has everything she needs to have within her own boundaries,—not merely northern territory, but southern territory, and some tropical territory as well. Porto Rico, the Phillipines, Haiti, Cuba, (which practically belongs to her)—in all of that territory, she is tropical; and her people do not have to go outside of their own boundaries to get almost anything. Contrast with that, Canada. Canada is a country of enormous possibilities, but Canada is a country that is northern and entirely northern. For everything we have to buy of a tropical character we have to go outside. On the other hand, take the West Indies. The West Indies have great possibilities; but they are, in their turn, tropical. For everything northern they have to go outside.

Now, if Canada for her southern purchases goes to the Southern states; and the West Indies for their northern purchases go to the Northern states—we will both roll up in the United States a tremendous indebtedness and make burdens

for each other; whereas, by co-operating and each buying from the other, we would not have that. Canada ought to buy, as far as possible, everything she wants that is tropical from the West Indies; and the West Indies should buy everything they want from Canada or the Mother Country. For nine-tenths of their needs, the West Indies must go to Canada or the United States; and if they do not get them from Canada they will get them from the United States.

Can you imagine New York and California treating each other as Canada and the West Indies do? Can you imagine the United States allowing Florida to import Canadian flour instead of northern flour? Can you imagine such a thing? Yet we in the Empire are going along on those lines. If we are going to remedy things, we will have to change right over.

Now the question comes; granted that the West Indies and Canada can co-operate and help each other, how is it going to be done? We already have a twenty per cent. preference treaty which applies to the Eastern group of Islands—with the exception of Jamaica and Honduras, which are not parties to the agreement, but to which Canada voluntarily extends it without getting any return. But for that existing treaty, British trade would by this time have been almost wiped out in the Eastern group of islands. The United States would have got everything. The name of Sir George Foster is associated with that treaty; and, after he is dead and gone, this one thing will be remembered for centuries to his credit. That treaty has done a great deal; and it is very noteworthy that in two articles where it has been the most effective,—flour in the West Indies, and sugar in Canada,—there is a special exception by which the preference is greater than twenty per cent. It seems to me, the first step is to greatly increase that preference.

Last Spring, or ten months ago, I took a trip right down through the West Indies, right down as far as British Guiana. I addressed Chambers of Commerce in various places, and I was received royally. It was pointed out first by the chairman of the Canada-West Indies League; and all through the Islands, when I talked about closer trade relations, I suggested that the preference be increased from twenty, to fifty, per cent. Everywhere, that idea was received with enthusiasm. I think that idea is going to come to pass soon, even if nothing more comes. The question was raised at one place—afterwards I always raised it myself—what are we going to do for revenue if we increase the preference? The average tariff is

twelve per cent., and if we give a preference of fifty per cent. we cannot stand the loss of money. Well, I promptly told that meeting "Gentlemen, there are two ways in which you can give a preference of fifty per cent. One way is to cut the present tariff rate down from twelve to six per cent. for the preference rate, and get into financial trouble at once. The other way is to let the twelve per cent. remain the preferential rate and make it twenty-four per cent.—double it for everybody else. Then, you won't have any trouble regarding revenue, and you will give us a preference that will seem worth while. If we give you fifty per cent., we are giving you fifty per cent. of the Canadian tariff. Do you think it fair to give us a preference of fifty per cent. of a twelve per cent. tariff?" Everywhere the idea was taken up.

I have already said that the British Empire needs development. It has enormous resources, but those resources need development. One of the places with great resources that is most in need of development, is British Guiana. The Islands are fairly well developed. The Barbadoes have a population of 1,100 to the square mile. It is densely populated. But when you come to British Guiana you find a place of 90,000 square miles with 300,000 people—or three to the mile. Forty-five per cent. of the population is Hindu, the rest is nearly all colored. You can divide the country into three sections. The coast land is low lying, and most of it would be under water at high tides of the year. The water is kept out by dikes; and it has an exceedingly rich alluvial soil, capable of producing enormous quantities of sugar and rice. British Guiana is rapidly coming to the front as a rice-producing country. Coming into the interior, you get a dense forest section with valuable tropical timber; and, more important still, it can, when cleared, give just as rich tropical products as any part of the world. Then, when you come to the southwestern corner, you come to something strange. You come to a great prairie section, with grass capable of sustaining great herds of cattle—cattle that would not come into competition with ours, but would be of great value in serving the Mother Country and other places.

As I have said, we want to have that country developed; and those people want to be developed. One man down there said to me, "The people of British Guiana would almost sell their souls to get their hinterland developed." It is not a white man's country; but it is capable of sustaining, not 300,000, but 3,000,000 people. What would it mean to us to have

3,000,000 people producing tropical things we need; and 3,000,000 people consuming the northern products our farmers sell and our manufacturers turn out? One of the things they want is a railway to open up all that country. Ten millions would be more than enough—but we don't need to go into that at present. Another big thing is, that the "savannah" land does not stop at the border of Guiana—because it extends up into Venezuela and Brazil. It is land that can be commercially annexed. While it would remain, politically, Brazilian or Venezuelan, it could be made commercially part of British Guiana by a reciprocity treaty or a commercial treaty.

(Mr. Macaulay referred to some of the difficulties in the way of political union that would bring the West Indies into the Dominion.)

But isn't it possible (he continued) to get some other arrangement than political union? I think the case of Porto Rico is an instructive one. Porto Rico has, since the year 1901, had absolute commercial union with the United States. There is no duty on imports or exports between Porto Rico and the United States. Commercially, Porto Rico is as much American as they are in the state of Florida. The full American tariff applies to everything that comes into Porto Rico from any other part of the world, but the proceeds don't come to the United States. They go to the Porto Rican local legislature. Porto Rico has its own local government, with moderate restrictions—because the Governor and other officials are appointed by the President of the United States. She looks after her local affairs, but Porto Rico has no voice of any kind whatever in the control of the United States,—no members of Congress, and no Senators. Now, from the commercial standpoint, that has several advantages. I do not believe that, if some such system was followed with the West Indies and Canada, it would be necessary to transfer the Government from Great Britain to Canada. It is a commercial arrangement we want at the present time, and nothing else,—at the present at any rate.

In 1901, Porto Rico exported \$8,000,000; and in 1918 she exported \$74,000,000. In those seventeen years her exports increased nine times. Her imports in 1901 were \$9,000,000; and in 1918 they were \$63,000,000. Her imports increased eight times; and, of that \$63,000,000, \$59,000,000 came from the United States and only \$4,000,000 from all the rest of the world. Porto Rico has become enormously prosperous under that arrangement, and Porto Rico has done her full share in

making the United States prosperous. Any arrangement that we could get with British Guiana and other places would indeed be one that would make Canada prosperous, and make them prosperous as well.

I do not think there is anything to be gained by tying ourselves up to any one theory or idea of how we can get closer relations with these colonies. I have my idea. My friend Mr. Crow has his idea. Some fellow over in England may have a different one, and some other fellow down there still another one. How are we going to decide? I think we should bend our energies to get all these different colonies to send deputations up to Canada, where they could sit down with representatives of Canada and take weeks or months to thresh out the problems that arise; and then make some definite recommendation that appeals to them as wise. Then, that will be a matter for our government, their governments, and the British government to consider. I may tell you that, not merely the people in the West Indies think cordially of this idea of closer trade relations, but the Colonial Office as well.

(In closing Mr. Macaulay mentioned the fact that a gathering of Chambers of Commerce for the Islands was now in session discussing everything relating to trade relations; and that Mr. Frank Keefer, Parliamentary Under-Secretary of Trade and Commerce, was attending.)