A HISTORY OF BRITISH INVESTMENTS

IN CANADA

by

WILLARD S. BUSH

THESIS SUBMITTED FOR

DEGREE OF BACHELOR OF ARTS.

HONOR POLITICAL ECONOMY.

McMASTER UNIVERSITY, HAMILTON, MAY 1938.

F O R E W O R D

The following thesis attempts an historical treatment and economic analysis of British Investments in Canada.

The limited material available in comprehensive form and the complete absence of authoritative statistics until 1926 has made it necessary to seek the greater part of material in the files of current periodicals and pamphlets and prohibited an accurate scientific treatment.

However, what has been gathered and presented herewith does reveal prevailing trends in Canada's development and suggests the degree to which that development has been a function of British capital.

The writer is deeply indebted to the invaluable assistance rendered by Prof. K.W. Taylor in directing this study, and helping to minimize its shortcomings.

TABLE OF CONTENTS

INTRODUCTION

The growth of Canada to economic and political prominence has peculiarly coincided with the appearance and development of a new and portentous economic phenomenon - foreign investment. Reaching economic importance in Great Britain in the eighteenth century, the export of capital was regarded as an evil, disintegrating force, sapping the life blood of British industry and adding fresh strength to her most formidable competitors. Political thought of the day attributed current internal economic troubles to this new phenomenon, yet the trend of commercial progress was to make foreign investments an aspect of prime importance in the future international economy. (1)

Arising from the enterprise of merchants and capitalists, the needs of other countries and of distant undeveloped lands, foreign investment was stimulated by the increased surpluses of revolutionized industry, by the advent of the joint stock company and other financial institutions and fostered by a general growth of security.

Foreign investment might be defined as that part of a country's property situated abroad from which the owner expects to derive an income. Although moral and ethical

---

(1) C.K. Hobson - Export of Capital. Chap. 1.

considerations lend a varying degree of weight, the causes of foreign investment are primarily economic and depend upon the return which capitalists expect to derive and upon the risks and uncertainties which investors are willing to assume.

Although capital is generally measured in terms of money, it is essential in a treatment of foreign investment to take into account the substance of capital. Capital export can only be realized by an adjustment in a nation's trade balance, either by sending more goods abroad than would be required to pay for purchases, or by decreasing the amount of goods imported. The latter may be achieved by a nation's self denial or by diverting goods from a trading nation to a borrowing nation. To a large extent Britain's Canadian investments have been of this latter kind, her investments being largely represented by goods not of British origin.

As suggested above, economic considerations play, on the whole, the predominant part in determining the direction of investments. Investors primarily try to obtain the largest possible material advantage for themselves. The productivity of capital wisely invested in the resources of an undeveloped country is generally greater than that invested at home and though associated with a much higher degree of risk and uncertainty, this anticipation of a higher yield has turned large sums of British capital into foreign fields.

This added risk is a function of many factors fundamentally based upon the distance which prevails between the investor and his investment. The difficulty of securing knowledge concerning the exact risks attached to investments abroad, the expense and time involved in communication and transportation, the barriers of race, language, and religion, all add a distinct cost to foreign investment. To a large extent, it has been the decreasing influence of these factors that explains the rapid advance in the extent of foreign investment during the past century.

As the cost of obtaining knowledge is to a large degree a fixed charge, the proportional cost decreases with an increase in the amount of capital invested. Thus the investment of capital in foreign fields tends to promote further investment. In conjunction with scientific advancement in communication and transportation, this fact helps to explain the geometrically progressive nature and the geographical distribution of foreign investments during recent decades.

The possession of knowledge plays a distinct role in foreign investment. It commands a price and determines the direction of the flow of investment capital just as a comparative advantage influences the direction of foreign trade in a commodity. It is the varying degrees of specialized knowledge that explains the phenomenon of two countries exporting capital to each other, supplying capital for those occupations in which they possess a specialized knowledge. Thus while England was exporting large sums of capital to the United States, American capital was associated with the construction of London tube railways. The same tendency applies in cases where capital is raised in London through American interests in order to promote undertakings in Canada. The money eventually comes into Canada cheaper than had the Canadian enterprise been promoted directly in London (1)

The economic effects of capital exportation upon the world in general and upon the countries directly concerned in particular is a profound discussion in itself. The world as a whole benefits if capital flows to those quarters where it is most needed, provided it is not used in a wasteful manner. For the most part, the best interests of the world at large coincides with the best interests of new countries undergoing rapid economic development so that the responsibility of foreign investment tends to rest with the rich investing countries. Capital investment should be encouraged where the interests of the world demand it, and stinted where lending would confer no real benefit upon society. History has shown that capital may be used for

---

(1) British money for speculative mining development has entered Canada in this manner - C.K. Hobson - Export of Capital.

purposes of exploitation in the worse sense of the word and that the self interest of individual investors is but an unreliable guide to the interests of nations and the human race.

The capital which a country exports is not necessarily surplus capital that domestic enterprise cannot absorb. It migrates because it is encouraged to do so by a higher rate of interest. When the British investor is offered a safe 4% abroad, he will take it in preference to a similarly safe 3% at home. The normal reaction to capital exportation is similar to an increased productivity at home, a rise in the rate of interest, as was the case, it will be seen, in England during the first decade of the twentieth century when British foreign investments reached tremendous proportions.

The rise in the domestic rate of interest affects the distribution of the national income, distributing a larger share to the owners of capital and a lesser share to wage earners. This condition tends to encourage emigration and reduce unemployment within the lending country, a condition which is typical of a period of active foreign investment.

Foreign investment further increases the demand for labour and capital at home because development abroad expands the market for home manufactures enabling the added economies of increased production.

The development of new countries with rapidly growing populations can only be accomplished with the assistance of large supplies of capital, the major part of which must be borrowed. Their growth is almost entirely a function of foreign borrowing. With a wise policy of internal development the economic result of capital importation within a new country can only be progress and prosperity. The country's income will be increased, demand for labour will be enlarged, immigration will be on a large scale and the economic conditions of the working classes will be improved. There will be a relative fall in the rate of interest and a relative rise in wages.

With this summary discussion of foreign investments in general, it will be interesting to consider in particular the development of that link which joins Canada and Great Britain in the chain of international finances. A common language and kindred institutions placed the British investor in a position of great advantage for investing in the British Colonies and Canada's rich resources and economic potentialities offered the British investor an ideal set of passive conditions.

CHAPTER 1

Capital investment in Canada began with the first French settlers settling in New France in the early seventeenth century. The importation of capital at that time was in quantities only sufficient to meet the initial costs of firmly establishing and starting a settlement upon its course of slow but sure development. A settlement's continued progress proceeded as its own surpluses accumulated. Until the nineteenth century this capital situation in Canada seemed to prevail, foreign capital roughly maintaining a constant relation to the pioneer population.

When the population commenced to move inland and settlements appeared distant from navigable water a new aspect in colonial development appeared. Transportation facilities, the gradual mechanization of the pioneer economy and rapidly rising standards of living, demanded larger amounts of capital than a country in its infancy could supply. It was in the interest of the England of the early nineteenth century to behold colonial development in a new light and supply the required capital.

The early nineteenth century saw Europe, and particularly England, in a state of economic bewilderment. The far reaching effects of the industrial revolution, the unique problems of readjustment precipitated by the post-

Napoleonic settlements, and universal financial instability combined to make an unprecedented demand upon British resourcefulness. An outlet for England's overdeveloped domestic economy was imperative, her foreign markets had to be expanded. The development of the new world offered an opportunity for an enlarged foreign trade.

In 1830 it is estimated that England had about seventy-five million pounds invested beyond her borders. (1) Though little more than five millions had found its way to North America it was towards the New World that the immediate trend was directed and the future most promising.

Canals, roads, and pioneer companies, accounted for the major part of early British investments. British private capital was noticeably absent in the building of the canals, the English capital being principally in the form of Imperial grants and bore a direct relation to the military desirability of the proposed canals as is evidenced by the following statistics.

EXPENDITURES ON CANALS PRIOR TO CONFEDERATION.

(2)	Imperial Government	Provincial Government
Lachine Canal	40,000.00	2,547,532.85
Rideau Canal	3,911,701.47	153,062.60
Welland Canal	222,220.00	7,416,019.83
Other Canals		6,834,092.24

(1) Jenks - Migration of British Capital to 1875.
(2) Canada - An Encyclopedia, Vol. 111 page 332.

The Hudson's Bay Company was the largest and best known of the pioneer companies. Its charter was granted by Charles 11 in 1670 to Prince Rupert and seventeen other noblemen and gentlemen with an original capitalization of £110,000. This Company enjoyed a continuity of activity in Canada which has endured to the present day. In 1857 its capital, as compiled by Mr. T.C. Keefer, C.M.G., was £1,265,067. (1)

Throughout the first half of the nineteenth century, British financial pioneering in the New World had been predominately located in the United States. The advent of Jackson to the presidency in 1829, and the subsequent uncouth treatment of foreign debts, precipitated an acute lack of confidence towards American investments which, coupled with an increasing spirit of Empire consciousness on the part of the British public, directed a larger portion of British capital into Canada.

From 1837 - 1845 British financiers had found profitable employment for England's estimated annual surplus of sixty million pounds in domestic railroad building. (2) When the nation had reached its domestic railroad capacity, promoting and constructing organizations which had been set up sought similar opportunities elsewhere in Europe. By 1850 Canada's crying need for transportation was appreciated

(1) Canada - An Encyclopedia. Vol. 11, page 46.
(2) Jenks - Migration of British Capital to 1875.

in Britain resulting in an influx of British capital in the form of road beds, steel, and rolling stock.

In contrast to the building of canals, the history of railroad building in Canada is one of private British capital seeking profitable investment. Prior to 1845, British capital had participated in the building of the Atlantic and St. Lawrence railroad running from Montreal to Portland, Maine, but the building of the Grand Trunk was the British investors' first conspicuous venture into Canada. Undertaken by a firm of British contractors, Peto, Brassey, Betts and Jackson, who were sympathetically and financially backed by Canada's financial agents in London, Barings and Glyns, the Grand Trunk was inflicted upon a young and unsuspecting Canada in a most extravagant and inefficient manner. English contractors and engineers failed to anticipate the severity of Canadian winters. By 1862 the investment of British capital was estimated at twelve million pounds (1) revenue had not been sufficient to meet current expenses, the road bed and rolling stock were already in need of extensive repair, grain traffic was far below expectations, return westbound freights had failed to appear and English administrative policies were arousing undue antagonism. A Canadian government which was extremely pliable in the hands of men like Jackson didn't

(1) Jenks - Migration of British Capital to 1875.

help the cause of the Canadian taxpayer. Jenks sums up the Canadian aspect of the railroad as follows: "It was for the glamour of a distant syndicate and the ineptitude of absentee administration that the Canadian taxpayer was saddled with the costs."

The British investor invested heavily in the Grand Trunk with unhappy results. A letter taken from the London Times of April 15th, 1875, is reprinted in Castell Hopkin's, Canada, An Encyclopedia, Vol 11, page 145. In revealing a somewhat biased Englishman's view of the railroad's financial plight, he stated that £30,000,000 had been spent upon the Grand Trunk to date, of which £25,000,000 was English money.

The construction of the Great Western Railroad was similarly a function of British capital, though its history reflects more credit upon both Canada and its British management. Of the company's original $6,000,000.00 capitalization, $5,500,000.00 was subscribed in England. This original capitalization was a gross underestimate, it being necessary to raise the share capital by Act of Legislat~~ive~~ure on five different occasions to the extent shown below:

	Shares	Amount
March 29. 1853	60,000	$6,000,000
April 22. 1853	40,000	4,000,000
Nov. 10. 1853	18,000	1,800,000
May 19. 1855	60,000	6,000,000
Aug. 16. 1858		8,000,000
		$ 25,800,000

Castell Hopkins - Canada, An Encyclopedia, Vol. 11 page 138

Numerous smaller railroads were constructed during this early era, employing principally British capital, all of which subsequently became bankrupt or were absorbed by the G.T.R.

RAILROAD STATISTICS AT CONFEDERATION (Sessional papers 1867 #1)

	Miles	Cost of Road & Equipment (Paid up Capital)
Great Western	352	$ 24,777,000.00
Grand Trunk	1377	102,803,000.00
London & Port Stanley	24	1,033,000.00
Welland Railway	25	1,623,000.00
Northern Railway	97	5,458,000.00
Pt. Hope & Lindsay Railway	56	1,994,000.00
Coburg - Peterborough	14	900,000.00
Brockville - Ottawa	86	2,647,000.00
Carillon - Grenville	13	99,000.00
Stanstead, Shefford & Chambly	44	1,216,000.00
St. Lawrence & Industrie Ry.	12	34,100.00
Total	2100	$ 144,611,853.00

In the following ten years the mileage more than doubled, being in 1876, 4,826, with a paid up capital of $298,502,000.00, which was further increased in the following two years to a total of 6,143 miles and a paid up capital of $360,617,000.00 in 1878.

With the early opening up of Canada, municipal and public expenditures on primary public works pressed their demands upon available capital and though some borrowing was undertaken at home, it was in London that the principal loans were made. The total debt payable in London in 1867 was estimated at $67,069,115.00 of which $34,565,500.00 was contracted at 6%; $31,822,282 at 5%; $681,333 at 4%; the latter a loan specially guaranteed by the Imperial Government. (1) The following table shows subsequent borrowing up to 1878 and by projecting it to 1897 it is possible to observe the trend of Canadian credit in London reflected in the declining interest rates and the disappearance of Imperial guarantees.

---

(1) Statistical Year Book 1868.

(Taken from Canada, An Encyclopedia,
Castell Hopkins, Vol. V)

Statistical Year Book 1902

Year		Amount	Interest Rate
1869	(1)	£ 1,500,000	4%
		500,000	5%
1873	(1)	1,500,000	4%
	(1)	300,000	4%
1874		4,000,000	4%
1875	(1)	1,500,000	4%
		1,000,000	4%
1876		2,500,000	4%
1878	(1)	1,500,000	4%
		1,500,000	4%
1879		3,000,000	4%
1884		5,000,000	3½%
1885		4,000,000	4%
1885		6,443,136 (Canada reduced)	4%
1888		4,000,000	3%
1892		2,250,000	3%
1894		2,250,000	3%
1897		2,000,000	2½%

(1) Guaranteed by Imperial Government.

The rapid development of the agricultural and industrial interest of the country following the close of the American Civil War and the Confederation of the provinces in 1867 created an extraordinary demand for loans on real estate which led to the formation of a number of loan and mortgage companies. In their beginning, these companies were predominately founded upon the savings of Canadians, but as Canada's progressive trend became stronger and more widely appreciated, the popularity of the shares of these companies spread to London and Glasgow, and by 1878, debentures of loan and mortgage companies, payable in Great Britain, had reached a sizeable figure.

(1) Year	No. of Companies	Paid up Capital	Deposits	Debentures Payable in Great Britain
1867	19	$2,110,403.00	$577,299.00	Negligible
1874	33	8,042,150.00	4,614,812.00	$ 19,992.00
1878	58	17,287,538.00	7,102,186.00	5,285,888.00
1881	80	25,445,639.00	13,460,268.00	21,913,828.00

An extract from an editorial printed in the Monetary Times in 1872 (July 5th. 1872) referring to a new Canadian loan company, gives a cross section of the trend of British attitude toward Canadian investments: "Readiness of all persons to subscribe to joint stock

(1) Dept. of Finance, Report on Affairs of Building Societies Trust and Loan Companies 1913.

undertakings is remarkable. We hear that £1,250,000 has been subscribed to a new company, the Canadian Loan Agency and Investment Company, in this city. This would have been impossible a few years ago." A comparative statement of the London and Canada Loan and Agency Company for the years 1873, 1874, 1875, published in the Monetary Times (October 22nd. 1875), illustrates the trend.

	Aug. 31.1873	Aug. 31.1874	Aug. 31 1875
Stock held in Canada.	$1,230,000.00	$1,230,000.00	$1,230,000.00
Stock held in Gt.Britain	118,000.00	163,000.00	562,000.00

A subsequent editorial in the same publication (February 4, 1876) points out the profitableness of application of capital to Canadian agriculture to both the lender and the borrower. "Loan companies can afford to pay 6% for money in England and lend it to net 8% quite handily in Canada."

More speculative of the early British investors explored the mining possibilities of Canada. The early files of the Monetary Times make mention of several oil ventures, of salt, phosphate, coal, lead and copper mining enterprises. The oil companies, from 1871-1878, acquired a distinct prominence within English investment circles, owing more to their fraudulent tendencies than to their investment returns. In its issue of January 26. 1872, after noting a prospectus of a new Canadian Oil Company, the Monetary Times writes, "This, if successful, will be the third oil company financed in England having Petrolia as its base of operations, and we should not be surprised to hear of still another at a very early day. The prospect is now that an oil territory will, hereafter, be worked chiefly by English capital." The same paper (November 3. 1871) announces the sale of 118 acres of oil lands to an English company for £480,000 and goes on to brand it a swindle and likely to discourage future investment of British capital. A subsequent article (February 9, 1872) writes "the great speculation (in Petrolia) just now is trying to form English oil companies, not with a view to bring English capital into the oil regions of Canada, but to sell them worthless lands that possess no value whatever.".

These extracts suffice to show the questionable character of oil ventures in Canada. Other mining ventures were of a sounder nature. Monetary Times (August 2, 1872) announces formation of Consolidated Copper Mining Company of Canada with properties in Megantic county with a capitalization of £400,000. The Quebec Iron Company, with property in Drummond county and capitalization of £90,000, is noted in the same issue. The Canada Copper and Sulphur

Co. Ltd., operating three mines in Eastern Townships with monthly production of $18 - $20,000 (1), the Richie Phosphate Mine with £15,000 capitalization (2), the Thunder Bay Mining Co. (3), Goderich Salt Co., with $75,000 capitalization (4) are examples of English mining operations in Canada prior to 1878.

By 1878, Canada and Great Britain had been financially introduced to one another. 1879 was the beginning of a long period during which Canadian financial history was largely a record of borrowings in the London market which were to increase progressively until the outbreak of war.

---

(1) Monetary Times, Oct. 13, 1876
(2) Ibid. Nov. 8, 1878
(3) Ibid. Jan. 7, 1869
(4) Ibid. Jan. 21, 1870

CHAPTER 11

1878 - 1900

The years 1878-1900 marked a period of alternating prosperity and depression in both Canada and Great Britain. British capital investment in Canada was sympathetic to economic conditions and when it slackened Canadian development experienced periods of relative stagnation. As in the previous decades, railways, financial institutions, government and municipal bonds were the principal agents in drawing foreign capital into Canada, the Canadian Pacific Railway being the largest single borrower.

Sir John A. MacDonald returned to power in 1878 and in 1881 it was definitely decided to have the Canadian Pacific built by a private company. It was economically and nationally necessary that the road be built as quickly as possible. Canada's experience with government contracts had not been particularly profitable in the past, and the physical aspects of construction presented an enterprise previously unparalleled; thus, in 1881, a small syndicate of Canadians and Americans who had exhibited acute business acumen in the management of the St. Paul and Pacific Railroad, accepted the franchise offered them by the Dominion Government.

The financing of the Canadian Pacific was an outstanding triumph. An unenthusiastic British market greeted their requests for capital as their original public issue was only two-thirds subscribed. The heavy losses sustained by British capital in the Grand Trunk investments had not been forgotten. The press of Great Britain had been cool towards Canadian railways for some time and the English market was definitely unpromising.

The London Times of April 15, 1875 wrote in part, in its financial columns: "At the lowest estimate this country has lent Canada £38,000,000 for railway purposes, only about £10,000,000 of which yields any return.------- while three fourths of English capital spent on Canada is unproductive it cannot be expected that we shall go on lending to all comers asking no questions". The condition was aggravated by not altogether disinterested attempts of certain Canadians to belittle the enterprise in the eyes of the British investors. The Grand Trunk was naturally the most bitter of these opponents, the men interested in that great railway having used every possible means to defeat what they regarded as a coming formidable rival.

In Castell Hopkins' An Encyclopedia of Canada, the capital situation of the C.P.R. in 1883 is revealed as follows: "In the Autumn of 1883, $65,000,000 of capital stock had been sold, ---- owing to bitter assailment of the road at home it was impossible, through the feeling of distrust created by the attacks made upon the company, to sell the remainder of the stock. The worst feature of the struggle was that the greatest opposition came from Canadian sources and was therefore the harder to overcome as it influenced the monied interests of Great Britain against the road".

In the distribution of the original shares of the company, 550,000 in number, the foregoing English sentiment is revealed.

(1)	New York	290,000	52.7%
	Quebec	100,000	18.2%
	United Kingdom	90,000	16.3%
	Holland	57,000	10.2%
	France	15,000	2.6%

Especially liberal terms accorded the company by the Dominion government in the form of cash subsidies, land grants, and subsidiary companies along with extensive credit and guarantees, enabled the company to successfully overcome financial difficulties which appeared throughout the years of construction. Gradually the English market became more approachable and absorbed the major part of subsequent issues.

The Grand Trunk and other Canadian railways

H.A. Innis History of C.P.R.

experienced continued expansion throughout the last two decades of the century. Practically one hundred percent of their stock issues were absorbed in London. This condition was economically expedient from the Canadian point of view, it being considered desirable that the surplus capital that Canada was producing should be kept free from long term investment. (Statistics page 25).

Loan companies continued to play an increasingly important part in Canada's domestic development. Favoured by an act of incorporation that especially suited the pecuniary condition of the Canadian people, and enjoying a trusted and respected position in London financial circles, the land and mortgage companies experienced a distinct boom throughout the last two decades of the nineteenth century. The progressive nature of the Canadian farmer, especially in Ontario, coupled with a high soil fertility, rendered capital supply business a field of major activity.

The debentures issued by these companies were generally drawn for period of 3-5-7-10 years, were for amounts not less than $100.00 and were mostly held by the landed gentry of England and Scotland.

Statistics of Land and Mortgage Companies (p.26)

Canadian banking experienced decided expansion during this period, especially from 1882 to 1886, when thirteen new banks were incorporated. However, British capital played little part in Canadian banking in spite of decided efforts on the part of Canadians to attract capital from England as was currently being done by the Australians. A small amount did come out to the Commercial Bank of Manitoba, much to the subsequent sorrow of the English shareholder. (1)

Towards the latter part of the century English financial interests were becoming aware of the mining potentialities of Canada. The London Mining Journal of September 4th. 1897 writes an article which reveals somewhat the manner in which Canadian minerals were beginning to interest the British investor. The publication prints in part: "Canada looms large in the mind of the mining and investing markets. While the main reason of the fresh attention which Canada is receiving is the valuable new deposits of precious metals in British Columbia, there are ample reasons on other grounds for the kindly expectant eye which is being cast just now towards this one of the British dominions by those desirous of making money. No possession of Great Britain has made more progress of late years in wealth, trade and general development than British North

---

(1) Castell Hopkins: Canada, an Encyclopedia Vol. 1 p.485

"The Commercial Bank of Manitoba chartered in 1884 during period of inflation --- managed in a way beneficial to local development but not on sufficiently strict business principles and in July 1893 was obliged to suspend operations. A small portion of English capital was involved."

America ----------- In Ontario and Quebec, the mineral resources are scarcely yet developed, but important deposits are known to exist, such as iron, lead, zinc, copper, nickel----------."

The practical aspect of the above is revealed by a table printed in the Canadian Gazette (London) September 16th, 1897, (see page 27), listing some British mining companies and their capital investment. It refers to the Klondike and British Columbia companies floated in London and gives some indication of the amount invested at that time.

CANADIAN RAILWAYS AT CONFEDERATION

Miles	Capital
2,100	$ 144,611,853.00

CANADIAN RAILWAYS IN 1895.

	Miles	Capital.
Canada Atlantic	159	$ 7,736,355.00
Canada Southern	381	35,439,266.00
Canadian Pacific	6,174	315,015,823.00
Central Ontario	104	3,170,000.00
Grand Trunk	3,162	335,644,203.00
Manitoba N.W.	250	10,527,134.00
Quebec Central	154	9,258,288.00
Montreal & Atlantic	201	6,096,990.00
Dominion & Atlantic	221	7,541,512.00
Other Lines	3,819	105,452,483.00
Gov. Railways	1,352	58,758,505.00
	15,977	$ 894,640,559.00

Canada, An Encyclopedia page 231.

CANADIAN PACIFIC FINANCIAL STATISTICS

Year	Fixed Charges	Fixed Charges per Mile.
1886	$ 3,068,081.84	687.29
1887	3,250,263.81	640.57
1888	3,544,351.00	683.44
1889	3,779,132.94	751.46
1890	4,246,618.00	763.23
1891	4,664,493.45	808.96
1892	5,102,018.09	848.21
1893	5,338,597.22	843.45
1894	6,581,378.82	1,038.66
1895	6,659,478.32	1,033.83
1896	6,708,084.42	1,035.83
1897	6,783,367.26	1,032.79
1898	6,774,321.24	1,013.96
1899	6,816,676.36	973.81

PREFERRED STOCK 4%

1893	6,424,000.00
1894	6,424,000.00
1895	6,424,000.00
1896	8,005,666.67
1897-	9,830,
1898	20,951,000.00
1899	26,791,000.00

C. P. R. statistics from H. A. Innis History Of C.P. R.

CANADIAN PACIFIC FINANCIAL STATISTICS

CONSOLIDATED DEBENTURE STOCK 4%

1889	4,380,000.00
1890	12,040,606.00
1891	19,770,492.65
1892	34,953,008.28
1893	39,819,675.00
1894	41,279,675.00
1895	42,383,018.33
1896	45,347,843.35
1897	46,055,870.33
1898	48,061,866.53
1899	54,237,082.53

S U R P L U S

1886	635,444.70
1887	233,854.35
1888	326,423.92
1889	2,461,708.34
1890	2,053,082.51

DIVIDEND RATE

1884	3 %
1885	3
1886	3
1887	3
1888	3
1889	3
1890	5
1891	5

CANADIAN PACIFIC FINANCIAL STATISTICS

	Dividend Rate (Continued)
1892	5%
1893	5
1894	2.5
1895	1.5
1896	2
1897	4
1898	4
1899	5
1900	5

Ever since its completion the main financial interest in the Canadian Pacific Railroad has been overwhelmingly British. The following table gives the geographical distribution of the ownership of the common stock for selected years. (1)

Year	Canada %	United Kingdom %	United States %	Elsewhere %	Total Amount Outstanding
1906	10.58	60.83	15.03	13.56	$106,000,000
1915	14.14	62.64	9.86	13.36	260,000,000
1923	21.14	50.73	20.69	7.44	260,000,000
1926	19.43	53.96	18.74	7.87	260,000,000
1929	18.07	42.90	32.68	6.35	330,000,000
1934	17.26	52.50	24.40	5.84	335,000,000

Preference stock $137,250,000, 97% or 98% always held in Great Britain and has full voting rights.

---

(1) Canadian American Industry - Marshall & Taylor.

STATISTICS OF LOAN AND TRUST COMPANIES (1878 - 1899)

YEAR	NUMBER OF COMPANIES REPORTING	DEBENTURES PAYABLE IN CANADA	DEBENTURES PAYABLE IN GT. BRITAIN.
1878	58	$ 387,603	$ 5,285,288
1879	62	187,003	6,206,855
1880	83	244,659	22,968,108
1881	80	1,240,406	21,913,828
1882	91	2,968,880	23,701,480
1883	85	3,827,566	25,792,904
1884	84	3,909,482	28,358,884
1885	81	4,341,703	30,456,335
1886	77	6,544,535	32,361,307
1887	77	6,898,047	32,062,266
1888	74	7,214,785	36,582,670
1889	78	8,155,940	40,388,281
1890	76	8,300,694	45,123,546
1891	71	8,550,053	46,340,039
1892	70	9,153,190	48,684,039
1893	82	10,028,102	49,408,398
1894	94	10,388,146	47,153,562
1895	94	11,272,570	45,854,391
1896	94	11,769,285	44,736,097
1897	95	11,869,512	41,355,134
1898	95	12,667,914	40,373,067
1899	102	13,956,083	37,372,811

Report of Building Societies, Loan and Trust Companies, Dept. of Finance: 1913.

BRITISH MINING COMPANIES IN CANADA 1897.

Company	Paid up Capital
Yukon Goldfields	£ 55,000
Klondike Mining, Trading & Transport	200,000
Exploiters & Investers Trust	17,500
Klondike, Yukon Exploration	18,000
Klondike Pioneer	11,000
Klondike & Columbian Goldfields	95,000
British Columbia & New Find	100,000
British Empire Finance	7,198
British Columbian Exploitation	200,000
New Golden Twins	59,993
British Dominion Exploration	100,000
Klondike Gold Reef Exploration	55,000
C.E. Exploration Syndicate	100,000
Klondike, Yukon & Stewart Pioneers	101,000
New Klondike Goldfinders	18,000
	£ 1,137,691

(Canadian Gazette (London) Sept. 16, 1897)

CHAPTER 111

1900 - 1914

The turn of the century marked the beginning of a period of extensive British investment in Canada, a movement of capital that was to proceed at an ever increasing rate until the outbreak of war in 1914. Diverse causes, political and economic, combined to make Canada the principal recipient of Britain's surplus capital during this period.

A turning point in the course of Britain's foreign trade and thus in that of her foreign investments was reached at the beginning of the twentieth century. The Boer War, 1898-1901, absorbed the accumulated domestic savings of the previous inactive decade and marked the termination of that dormant period of British foreign investments.

Free from her South African entanglements Great Britain looked upon a rapidly changing economic world. Faced by a hitherto unknown competition in world markets, accompanied by a growing tendency towards higher tariffs, Great Britain found her relative position in world trade falling, as she strove to maintain a policy of free trade in the face of rising economic barriers.

TARIFFS AGAINST BRITISH EXPORTS, 1903 (1)

Germany	....	25%
France	....	34%
United States	....	72%
Russia	....	130%
Belgium	....	13%
New Zealand	....	9%
Australia	....	6%
South Africa	....	6%
Canada	...	17%

A moderate business depression followed the Boer War and with the upswing of the cycle came the recovery of British foreign investments. A policy fostering Empire trade had been adopted by Britain. It experienced its first concrete impetus at the Imperial Economic conference in 1897 and was nursed by Joseph Chamberlain during his term at the Colonial Office. The Colonial Stocks Act of 1900 gave the dominions trustee status for their public loans, which enabled them to borrow on easier terms.

The rapid advances in communication and transportation enabled a more widespread knowledge of Canada, which tended to relieve the strain of distant control and stimulated an increased appreciation of Canadian opportunities. The political security that British self government assured,

(1) G.D.H. Cole: British Trade and Industry, p.104.

gave the British private investor a set of desirable secondary conditions existing in a field that offered profitable financial return.

Political considerations added their impetus to a movement of capital that was economically spontaneous. Political and commercial prestige was a consideration to which the British government was not blind. Many nations were experiencing rapid change in their financial status. Nations who had formerly been borrowing nations were competing with Great Britain in foreign investment fields. The United States was developing rapidly as a financial power. Though British capital was still finding its way into America and was to regain lost ground somewhat in subsequent years, at the turn of the century the intensity of the American demand on the London money market had decreased tremendously. American capital in 1901-1902 went so far as to invade Great Britain when the construction of some of the London tube railways were undertaken by American syndicates.

Thus British capital, public and private, streamed into Canada in sufficient quantity to make her Britain's largest borrower.

The accompanying table and chart reveal Viner's estimates of British capital investment in Canada from 1900-1913. (See page 31

BRITISH INVESTMENTS IN CANADA 1900-1913

(Viner, Canada's Balance of International Indebtedness)

Year	Public Issues Thousand Dollars.	Private Sales by issuing Governments & Corporations.	Individual Sales	Treasury Bills	Insurance Companies	Other Misc.	Total
1900	3,068	1,000	1,000		1,000	4,000	10,068
1901	8,045	1,000	1,000		1,040	4,000	15,085
1902	4,641	1,000	1,000		1,275	4,000	11,916
1903	21,652	1,000	1,000		1,181	4,000	28,833
1904	21,934	1,000	1,000		1,566	4,000	29,500
1905	51,456	2,000	1,000		235	21,707	76,398
1906	42,656	2,000	2,000		90	21,707	68,453
1907	37,020	2,000	2,000		2,524	21,707	65,251
1908	152,478	2,000	2,000		3,218	21,707	181,404
1909	183,538	2,000	2,000		3,480	21,707	212,725
1910	177,926	8,563	2,000		3,651	26,317	218,457
1911	218,095	1,000	3,000		5,234	17,098	244,427
1912	187,140	4,500	3,000		6,165	14,025	214,830
1913	324,235	9,692	3,000	23,000	1,819	14,025	375,771
Total	$1,433,884	$ 38,755	$ 25,000	$ 23,000	$32,479	$ 200,000	$1,753,118

The unusual phenomenon which these figures portray is emphasized by Sir. Geo. Paish in an article printed in the Journal of the Royal Statistical Society in January 1911. "Excluding the United States, Great Britain has provided more capital to Canada than to any other country and the rate at which the British people are increasing their investments is so rapid as to be phenomenal. The amount of visible capital our investors have placed in Canada now (1910) amounts to the great sum of £373,000,000 and new supplies of visible capital are flowing to Canada at the rate of over £30,000,000 a year. Including the invisible capital, that is the capital privately supplied for loans on mortgages, the purchase of land for the conduct of private business etc., the amount is probably nearly £40,000,000 a year. The amount of visible capital we have sent to Canada in the last three years as reached £100,000,000."

"Canada still needs a large sum of money for the completion of the railways now under construction and inasmuch as the Mother country is proud of the great progress of her daughter, and is willing to supply her with all the capital she needs to develop her resources, it is evident that our capital investment in Canada will reach a much greater total in a few years. Practically the whole of the capital which has been spent on railway construction in Canada has been supplied by the investors of Great Britain. In the nineties, when our investors were suffering from a feeling of distrust of other nations, including the Colonies, the progress of Canada was very slow and the increase of her population relatively unimportant, but in recent years the ability of Canada to obtain all the capital she needs for the development of her natural riches has stimulated the growth of her population in a wonderful manner."

This extract is a neat cross section of British public opinion towards Canada, both as regards her development and as a field for investment.

The correlation between Britain's foreign investment and her foreign trade is of interest at this point

Year	Total Overseas Investment	Trade Foreign Countries	Trade Empire Countries	Total Trade
		65%	35%	
1896	£1,640,000,000	£156,000,000	£ 84,000,000	£240,000,000
		63%	37%	
1913	£4,000,000,000	£330,000,000	£195,000,000	£525,000,000

These figures reveal remarkable absolute increases and a slight but interesting relative shift between the trade with foreign and empire countries, which was to a large extent attributed to the increased investments within the Empire. Great Britain's trade, as revealed in the above figures, experienced an absolute increase of £285,000,000, of which Empire countries accounted for £111,000,000 or 39%, distributed as follows:

Canada accounted	for	£18,500,000
India "	"	40,000,000
Australia "	"	16,500,000
South Africa	"	8,000,000
New Zealand	"	7,000,000

Having examined the factors that influenced the degree and direction of this flow of capital from the exporting nation, what aspects of the Canadian economy absorbed the larger portions? The trend during this period was towards an increasing variety of capital requirements and opportunities and for the first time categories hitherto grouped as miscellaneous acquired proportions demanding separate consideration.

Government and municipal borrowing, as formerly, continued to absorb a large share of British capital. F.W. Field summarizes government flotations in London from 1905-1911 as follows:

Government	Amount
Dominion	$36,000,000
Manitoba	2,465,000
Alberta	1,811,000
Ontario	2,520,000
Saskatchewan	1,410,900
New Brunswick	450,000

In addition to government borrowings, municipalities sought the necessary capital for extensive public works and local improvements in Great Britain. Field's investigations show a total of $15,344,112 for the years 1905-1911 inclusive, distributed amongst twenty-five municipalities in varying amounts as shows below:

Winnipeg	3,727,642
Montreal	2,523,800
Vancouver	1,968,900
Edmonton	1,104,100
Calgary	997,900
Maisonneuve	879,000
Westmount	500,000
Quebec	407,621
Toronto	394,100
Regina	318,300
South Vancouver	310,239
Victoria	277,300
Point Grey	241,470
Hamilton	204,100
Moose Jaw	190,500
Saskatoon	188,600
Fort William	165,100
Ottawa	156,900
North Vancouver	130,500
New Westminster	120,600
Burnaby	118,300
St. John, N.B.	115,000
Port Arthur	110,700
Sherbrooke	102,700
Lethbridge	90,740
	$15,344,112

This list of municipalities, amongst which are many relatively unknown names, suggests quite definitely that the trend in England was towards a more widespread, detailed and confidence-inspiring knowledge of Canadian development.

However, a changing attitude towards Canadian government bonds on the part of the British investor is observed in the increasing difficulty of floating 3½ % bonds in London. This fact can be attributed to three factors, the rise in commodity costs reducing the real income from such investments; the increased security associated with higher yielding industrial and financial issues, and a general rise in interest rates.

As was the case in the previous decades, railroads continued to draw large quantities of British capital into Canada. Railroad mileage was steadily increasing until in 1911 there was 25,399 miles, the greatest per capita mileage in the world. The accompanying summarized statement of Canadian Railroad borrowing for the seven years previous to December 1911 shows the Canadian Northern, with a trans-continental line nearing completion, to be the heaviest borrower, followed by the Grand Trunk and Canadian Pacific. This total was practically one hundred per cent financed in Great Britain, the British investor maintaining his traditional identification with Canadian railroads.

CANADIAN RAILROAD BORROWING (1905 - 1911)

	Railway	Amount
	Canadian Northern	£ 21,181,140
	Grand Trunk Pacific	17,900,000
	Canadian Pacific	12,089,400
	Grand Trunk	4,598,400
(1)	British Columbia Electric	4,215,000
	Canadian Northern Ontario	1,593,569
	Alberta and Great Waterways	1,520,550
	Grand Trunk Pacific Branch Lines	1,270,500
	Canada Atlantic	1,025,000
	Duluth, Winnipeg and Pacific	950,000
	Nova Scotia Eastern	940,000
	Atlantic Quebec & Western	925,000
	Algoma Central and Hudson Bay	770,000
	Central Railway of Canada	600,000
(1)	Toronto Suburban	540,000
	Wisconsin	514,403
	Algoma Eastern Rly.	513,600
(1)	Montreal	460,000
(1)	Winnipeg Electric	300,000
	Central Ontario	200,000
	Dawson, Grand Forkøs and Stewart	125,000
	Central Counties	97,500
	Timiscouata	50,000
		£72,379,062

(1) Street Railways

Figures from F.W. Field, Capital Investments in Canada.

Building societies and Loan and Trust Companies continued, along with the railroads, to bring their share of British capital into Canada throughout this progressive period, hitting a peak in 1911. However, this type of financial institution was tending somewhat to absorb domestic capital as observed in the year 1913 when debentures payable in Canada increased almost two and one half times.

COMPARATIVE FIGURES OF BUILDING SOCIETIES, LOAN & TRUST COMPANIES (1)

Year	No. of Companies	Debentures Payable in Canada.	Debentures Payable in Great Britain.
1900	97	15,044,231	35,650,417
1901	98	16,877,878	34,885,457
1902	92	18,570,083	34,278,345
1903	85	19,189,312	35,083,495
1904	83	20,052,574	35,137,763
1905	84	21,394,845	43,585,832
1906	81	21,454,822	46,935,717
1907	78	21,185,037	49,928,730
1908	80	20,927,235	55,332,735
1909	84	39,359,906	43,781,392
1910	82	23,643,107	69,276,605
1911	77	23,618,629	72,155,411
1912	73	24,656,571	49,751,593
1913	74	64,490,240	56,728,877

Canadian Banking stock, which had been readily sold in Great Britain during the early period of Canadian Banking, continued to have large and numerous purchasers

(1) Annual Report of Dept. of Finance on Affairs of Building Societies, Trust and Loan Companies, 1913.

in Great Britain. With a rapidly expanding wheat acreage, (from 623,245 - 10,374,000 acres in the twenty years previous to 1911) and a proportionately expanding annual crop, enlarged banking facilities were continually demanded. The extent to which British capital did flow into Canadian bank stock (10,000,000 from 1900-1913) is no small criterion of the respect that British investors held for Canada and fundamental Canadian institutions. The double liability clause and other complications peculiar to Canadian bank shares invite careful study on the part of a potential investor and his subsequent appraisal is revealed in his response.

A notable change occurred during this period in the attitude of British capital toward Canadian Industry. For the first time London displayed pecuniary interest of any appreciable size.

Although the investment of British capital in Canadian mining enterprises had hitherto been small, the opening up of the Cobalt and Porcupine districts along with the coal areas of Alberta played a prominent part in bringing the total of British mining capital which entered Canada from 1900-1913 to a sizeable figure estimated by Viner at $59,000,000.

The Cobalt boom was Ontario's first big mining experience. American capital was first to appreciate the richness of the area and by quickly pouring in men and capital were able to reap abundantly the richest fruits. Well founded hesitancy was displayed by British interests until a group of European mining engineers put their definite stamp of approval on the Cobalt area in 1908. From then on substantial sums of British capital began to flow.

When the Porcupine area was discovered Canadian and British interests were better equipped to play pioneering roles. From the outset reputable mining interests, among whom were Consolidated Gold Fields of South Africa, the Moreing Beckwick people, the Anglo-French Exploration Company, J.B. Tyrrell, F.A. Heinze and others, were actively identified. The presence of these men inspired a degree of confidence absent in the early stages of the Cobalt boom.

Field distributes British Mining Capital invading Canada during this period as follows:

Gold	£ 680,000
Silver	320,000
Iron & Coal	4,731,660
Copper	80,000
Oil	622,000
Cement	790,482
Miscellaneous	909,480

In addition to the amount invested through public floatations large amounts were invested by direct purchase of mining stocks and claims. Field estimated that probably $1,025,000 came into Ontario in this way and about $500,000 into Nova Scotia.

CANADIAN LOANS IN LONDON FOR MINING PURPOSES (1)

1905	
Western Canada Cement& Coal Co.	£ 225,000
Northern Sulphite Mills of Canada	100,000
	£ 325,000
1906	
Western Dominion Collieries Ltd.	£ 300,000
1907	
Vancouver Copper Company	£ 80,000
England's Premier Cobalt Mining Co.	220,000
Bluebell Gold Mines	20,000
	£ 320,000
1908	
Dominion Oil Co.	£ 120,000
East Tilbury (Canada) Oil Fields	200,000
Ymir Gold Mines	20,000
Canadian Mineral Rubber Co.	170,000
Dominion Mica Co.	15,000
Dominion Iron, Steel Co.	1,200,000
Canada Cement Co,	360,082
Manitoba, Saskatchewan Coal Co.	51,440
	£ 2,136,522
1910	
Canada Cement Co.	205,500
Amalgamated Asbestos Corporation	624,480
Western Canada Collieries Ltd.	200,000
Nova Scotia Steel & Coal Co.Ltd.	309,000
Canadian Oil Producing & Refining Co.Ltd.	75,000
Canadian Collieries (Dunsmuir) Ltd.	2,054,800
Oklahoma Oil Co.	67,000
Lake Superior Iron & Chemical Co.	616,420
Hawthorne Silver & Iron Mines Co.	100,000
Standard Oil Co. of Canada	160,000
British Columbia Goldfields of Canada Ltd.	40,000
	£4,452,200
1911	
Ontario Porcupine Gold Fields Development Company	£ 600,000

(1) F.W. Field, Capital Investments in Canada.

Although the American investor has been quicker to realize the profitableness of investment in Canadian land and timber, nevertheless, British capital has not been entirely lacking. Influenced to some degree by the large railroad corporations, Viner estimated the British purchases of land and timber area from 1900-1913 at $40,000,000. British Columbia and the Prairie provinces seemed to have enjoyed a preferential rating with the English buyer, the fruit lands of the Okanagan Valley and western grain fields being the principal attracting areas. English capital in the lumber industry was limited to a few saw mills and a moderate investment in pulp wood limits. This latter industry received a distinct stimulus in the report of the United States Tariff Commission issued by President Taft. The report dealt with the relative comparative advantage enjoyed by the pulp and paper industry in Canada and the United States and presents the conclusion that the total average of equipment and efficiency is slightly better for Canada than for the United States. Below is presented the total of Canadian industrial flotations in London from 1905-1911, revealing the rapid annual increase:

(1)	1905	£ 1,010,000
	1906	802,500
	1907	1,220,000
	1908	3,344,000
	1909	2,932,508
	1910	3,608,847
	1911	7,528,765

(1) F.W. Field: Capital Investment in Canada.

LIST OF LAND AND LUMBER COMPANY FLOATATIONS IN LONDON FROM JANUARY 1906 - DECEMBER 1911

1906	
Western Canada Land Co.	£ 300,000
Southern Alberta Land Co.	400,000
	700,000
1907	
Canadian Estates Ltd.	£ 215,000
Western Canada Timber Co.	75,000
	290,000
1909	
British Columbia Fruitlands Ltd.	£ 174,600
Southern Alberta Land Co.	300,000
	474,600
1910	
British Columbia Fruitlands Ltd.	£ 174,600
Canadian Western Lumber Co.Ltd.	1,500,000
Western Canada Land Co. Ltd.	300,000
British Empire Timber Co.	500,000
Dominion Sawmills & Lumber Co.Ltd.	800,000
Swanson Bay Forests, Woodpath & Lumber Mills Ltd.	100,000
Anglo-Canadian Land Co. Ltd.	475,500
Dominion Sawmills & Lumber Co.Ltd.	800,000
	£ 4,800,100
1911	
Canadian Wheatlands Ltd.	£ 350,000
North Saskatchewan Land Co.Ltd.	450,000
Anglo-Canadian Timber Co. of British Columbia	225,000
Columbia River Lumber Co.	600,000
British Canadian Lumber Corporation	800,000
Canadian Pacific Lumber Co.	350,000
Dominion Sawmills & Lumber Co.	1,027,500
Kamloops Land & Development Co.	20,000
Alberta Land Co.	200,000
North Coast Land Co.	150,000
Dominion Western Land Corporation	100,000
Liverpool Western Land Corporation	50,000
National Land & Fruit Packing Co.	150,000
	£ 4,472,500

F.W. Field: Capital Investments in Canada.

The first decade of the twentieth century saw the beginnings of a branch plant movement into Canada on an appreciable scale. The advantages of this type of investment in Canada were considerably weighted in favour of American industrialists so that British capital entering Canada in this way did not become note-worthy until after the war.

CHAPTER IV

THE WAR YEARS

The advent of the war in 1914 had a very profound effect upon Canadian finance and future development. War-time emergencies have in the past given rise to institutions which have subsequently been adopted by peace-time economies. In the same way that Great Britain inherited the income tax and the Bank of England, and the United States the National Banking system and her high tariffs, exigencies of war contributed materially to a changed Canadian financial outlook. In the first place New York replaced London as the foreign centre for the marketing of Canadian securities and secondly, the demands of war financing gave birth to a domestic investment market that grew to sizeable proportions in subsequent years.

The Great War broke at a unique time in Canadian development. As observed in the previous chapter, the first twelve years of the twentieth century was a period of unparalleled economic activity. In 1913, before even the threats of war could have exerted any dampening influence, there was a definite break in the trend of increasing prosperity which rendered Canada's position in 1913 one to arouse definite fears amongst many reputable men. To many the war, coming as it did, was the only thing that saved Canada from a major economic set-back.

Undoubtedly Canada was faced with a problem of economic readjustment when war broke out. The depression of 1913 was to a degree world-wide, but the incidence appeared relatively more severe in Canada. A climax had been reached in Canada's extensive foreign borrowing. No longer was increased borrowing considered a satisfactory means of paying annual interest payments, which had reached an estimated $120,000,000. Decreased imports had produced an acute decline in customs revenue, emigration to the United States had reached a new high, and there was a noticeable return of Western farmers to the East; unemployment for the first time was causing concern.

Undue pessimism, however, seems to a degree to be unfounded. Writing in the London Economist of May 16. 1914, Wm. H. Tapp, F.R.A.S., F.R.G.S. refuted the statement "that the entire indebtedness of the Canadian people man for man, exceeded by a good deal that of the United States on Federal, State, and local account." as, "a statement unable to bear the light of serious investigation." In part he writes, "Canada is in the best financial position of all the colonies with the possible exception of India -------. Nor must be lost sight in making a comparison that at least two thirds of the mineral, timber, and hydro wealth of the Dominion remains unexploited. Certainly Canada's credit has been spoiled by the over expenditure on railways for political reasons, and the overvaluation of real estate by irresponsible agents and other quick money makers, but she is still in a perfectly sound financial position and she will demonstrate that fact before another year passes."

What seems to be an impartial economic summary of the Canadian year 1913 appears in the January 17, 1914 number of the Economist written as follows by its Ottawa correspondent. "1913 produced for Canada a break in the long series of years of bounding prosperity. Canada like other countries suffered from financial stringency, ------ but it was not the stringency which comes from adversity but that which springs from prosperity. The great expansion of the West led to a credit inflation which inevitably caused a certain amount of commercial failures. In the same way, there has been a reaction to the land boom, and realty values will take some time to recover. If Canadian industrial and other flotations have lost popularity in the home market, and dearer rates have had to be paid for borrowed money, nevertheless, a large part of the expenditure incurred on construction and transportation in 1913 may be regarded as productive in the sense that it will, for the most part, assist in a larger exploitation of the natural resources of the country. The banking system of the country has surmounted the strain of sudden contraction following an expansion with remarkable success. In the West, lessened ability to borrow has not produced a slump. The real estate gambler after a five year boom has been starved out, but property for real use is still being bought. Railroad construction in 1913 established a new record and mining industry expanded throughout."

The outbreak of war in 1914 confronted all nations of the world, belligerent and otherwise, with a changed financing problem almost overnight. The London money market was immediately closed to all foreign industrial borrowing. The United Kingdom Treasury officials realized that the outflow of capital into pre-war channels must stop. To finance war activities and lend assistance to allied countries was the paramount consideration. The famous Treasury regulations of January 1915 defining as good delivery only such securities as had been held in actual physical possession in the United Kingdom prior to September 30th. 1914, effectively closed the market to all outside borrowers.

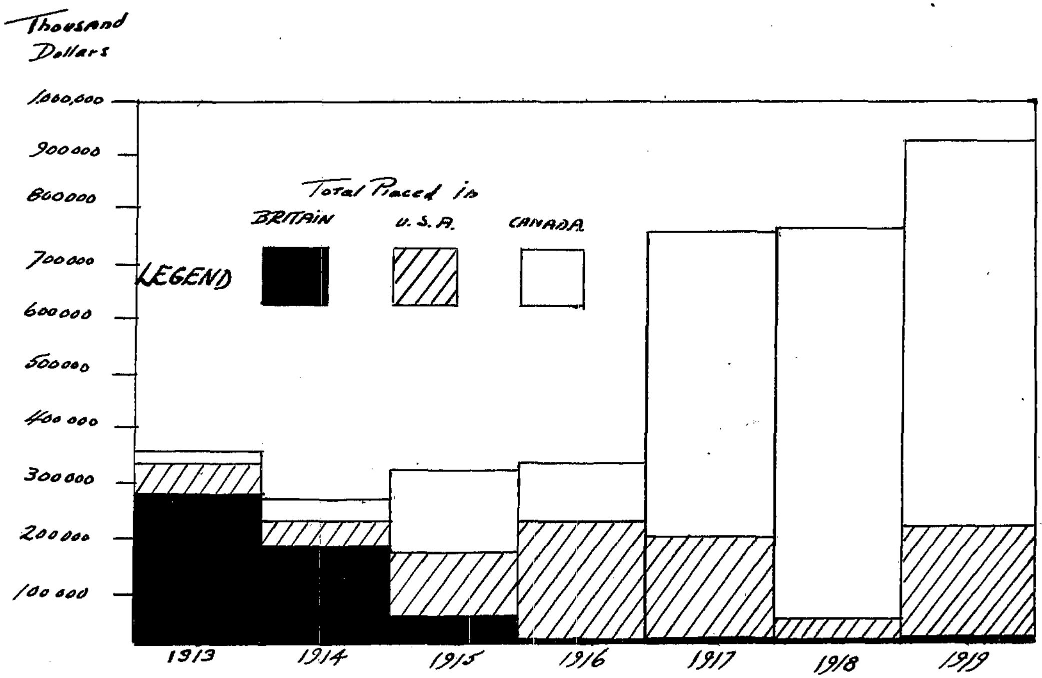
Writing late in 1914, Charles A. Conant investigated the probable effect of the war upon the supply of investment capital. He estimated the demand for capital for purely war purposes to be so great as to absorb an amount equal to the entire savings for investment made in all civilized countries for a period of several years, and that the effect of this abnormal demand for capital, "which is being consumed without economic profit," would be to raise the rate of interest upon investment securities higher than it had been for many years. He anticipated the liquidation of large quantities of American railway and industrial securities held in Europe in order to secure American dollars for war financing.(1) The movement of Canadian Pacific stock from England to this side of the Atlantic in the early stages of the war, justified this latter anticipation.

The necessity of Canada's radical change in financing was obvious. Great Britain could no longer be depended upon as a source of capital supply and Canada had no domestic investment market of her own. As shown in the following tables, Canada had immediate recourse to the United States to tide her over the period until an investment organization of her own could be set up. This transformation is vividly portrayed in the accompanying tables.

---

(1) Charles A.Conant - Effect of War on Supply of Investment Capital (Pamphlet).

Year	Total Borrowing	PERCENTAGE PLACED IN CANADA	U.S.A.	GREAT BRITAIN
1913	$ 373,795,295	12.20%	13.56%	74.24%
1914	272,935,067	12.09%	19.77%	68.14%
1915	341,892,871	43.71%	42.11%	14.18%
1916	316,917,362	33.56%	64.89%	1.55%
1917	756,346,033	74.63%	24.71%	.66%
1918	763,968,449	94.87%	4.70%	.43%
1919	909,383,728	76.89%	22.54%	.57%



In 1915 the prevailing conditions reduced Canadian borrowings in London to the lowest total on record since 1906. Railroads and the government were the only institutions to successfully invade the English market, the year's total of £8,235,000 being made up of three flotations, a ten-year bond issue which was oversubscribed, a Grand Trunk Railroad £2,500,000, 5½% five-year notes of which 44% were left with the underwriters, and a Canadian Northern Railway issue of £735,000, 5½% one-year notes, made to replace notes maturing in July of 1915. In addition to these public issues the Imperial government was advancing Canada £2,000,000 per month since the outbreak of war which had amounted to £30,000,000 by the end of 1915.

By 1916, United States had completely replaced Great Britain as the source of our foreign borrowing. During that year, only one Canadian public flotation succeeded in securing the treasury sanction, this being an issue of £1,000,000 by the Canadian Vickers Ltd. a company engaged in important work for the British Admiralty. In addition to the Canadian Vickers loan, there was a total of $42,000,000 of Canadian bonds repurchased in the United Kingdom.

In 1917 £1,000,000 of 3 year 6% Grand Trunk Railway notes successfully gained the London market which was followed again in 1918 by a further Grand Trunk issue of £3,000,000.

The figures presented in this chapter show that by 1917 the small investment dealer organization that had existed in Canada before the war had expanded in conjunction with banking and public support to an institution which was able to raise in 1917, 1918, 1919 an amount equal to Canada's combined borrowings from both Great Britain and the United States during the previous nine years.

When the United States entered the war in 1917, Canadian borrowing in that field practically ceased. No further help could be derived from Britain and Canada was completely on her own resources.

A short account of Canada's domestic war financing is not out of place. The Monetary Times of November 28, 1919, reviewed Canadian War loans after expressing the satisfaction of the Department of Finance over the exceptional success of the sixth and final Victory loan which was floated in the face of considerable doubt inasmuch as the war was over and patriotic incentive was considerably decreased. The Monetary Times writes in review, "The loan just raised is the sixth domestic flotation since the war, or practically at any time. The first war loan was raised in 1915 and the securing of money for Dominion purposes was such a novelty that there was much doubt expressed by Canadian financiers as to whether Sir Thomas White, Minister of Finance, could secure the modest fifty million dollars he asked for in that year. This loan was doubled, the amount applied for by the public being $103,729,500. This loan could in no way be called a popular flotation. There was no appeal to the small investor and the total number of applications was only 24,482. Nearly half the fifty million was taken by the banks.

The second war loan was floated in 1916 and Sir Thomas White as a result of the success of the first loan, asked for $100,000,000.00. The amount applied for was slightly over $210,000,000.00 but only the $100,000,000.00 was accepted. This loan, like the first, was largely subscribed by the big institutions and wealthy investors, the total applications being 34,526.

The third loan came in March 1917 and, as in the case of the two previous loans, there was no great campaign to reach the humble investor. One hundred and fifty million dollars was requested and $260,768,000 applied for. The total applications showed a slight increase but were still comparatively small, being 40,000.

It was in the fall of 1917 when the war situation was becoming critical and the question of world finances more difficult, that the first attempt was made to popularize Canadian bonds. Sir Thomas White formed a Dominion-wide organization and a great campaign was conducted throughout the whole Dominion. This loan again was $150,000,000, the rate of interest being raised from 5 to 5½%. The loan was a success far beyond the fondest hopes of Sir Thomas and his colleagues. The amount was no less than $419,289,000 and the number of applications jumping to 874,331. This was a great tribute to the value of advertising and organization.

The fifth loan, floated in the fall of 1918 was an even greater success. The amount requested was $300,000,000.00. The amount applied for was $695,390,250.00, the number of applications reaching the enormous total of 1,104,287, or about one out of every seven in population.

In the course of her war-time financing, Canada had definitely proven herself a nation.

CHAPTER V

1918 - 1938.

The conclusion of hostilities in November 1918 marked a financial victory for the British Empire which was second only to the victory on the battlefields. The extreme capacity of the credit system in general, and the exceptional financial strength of the British Empire in particular, astounded Britain's friends and enemies alike.

In sharp contrast to Germany, England's credit emerged from the war as strong as it had ever been. Her foreign trade, limited only by shipping facilities, had been maintained at the pre-war level and her foreign investments, somewhat changed in location owing to large liquidations in the United States, had not been decreased in amount by a single dollar. England had definitely proven her financial capacity.

Canada's financial revelation was no less astounding. Being immediately shut out from the London market at the outbreak of war she soon discovered her own resources and at the end of the War was supplying her own financial requirements almost one hundred per cent. As noted in the previous chapter, Canada experienced a complete financial transition from the British market to her own by way of the United States. The Government from first to last during the war had asked the people for $450,000,000 to finance the war (1) They had responded with the offer of $982,000,000 and at the close of the war the Canadian Victory Loan Bonds were selling at an advance on the issue price. Canada was the only country in the world where such a condition existed. War Loan Bonds in the United States, Britain and France were all depreciated. (2).

In 1919 the changed investment situation in Canada was as follows:-

1. Great Britain had ceased to be the centre for Canadian financing.

2. Friendly financial relations had been established with the United States.

3. A growing investment dealer organization in Canada had developed as a result of a new interest and capacity on the part of the domestic bond dealers.

4. Substantial provincial, municipal and corporation needs had been deferred while war time financial requirements had precedence, but were expected to require financing in the post war period.

This last aspect was very real as borrowing in

---

(1) Monetary Times June 7/18
(2) Monetary Times Jan. 10/19.

subsequent years was to show.

It had become the fashion before the war to assert that Canada's borrowing activities must stop and that the nation must concentrate on the production of wealth with the capital equipment possessed. The events of the war and the conditions following seemed to refute this contention. The Monetary Times of June 7. 1918, under the title "Financial Future of the Empire" wrote in part: "Canada and every other country in the like stages of development must be a borrower for years to come. Our resources have hardly been scratched. A veritable empire is still in the making in the West, the province of Saskatchewan has scarcely 15 per cent of its arable lands under cultivation, there is imperative need for the construction of 5,000 miles of branch railroads to open up and connect the virgin territory with the main trunk lines. The stock industry, farming, mining, and lumbering are still in the pioneering stages in the Western Provinces. Their future is assured but it is a far bigger future than most of us have envisaged. The alleged over-expansion of public building of all kinds in the West will be found to be in effect under-expansion when the great tide of European immigration shall have set in once more towards our shores." Though the facts of the following twenty years suggest the above as being somewhat of an overenthusiastic anticipation of the future, nevertheless it shows the prevailing psychology with which the Canadian people embarked upon a period of extensive public financing.

It was popularly believed that a gradual return of Canadian securities to the British market would follow the conclusion of hostilities but the return was considerably more gradual than anticipated. The strain of war-time financing necessitated in Britain, as in other countries, a restraining influence upon normal industrial and municipal financial requirements so that in 1919 and 1920 the domestic demand for funds in Great Britain was very intense.

Sterling exchange which had been artificially maintained during the war, suffered a serious decline immediately after the war which rendered Canadian borrowing in London very undesirable. Under the heading "Our Relations With Great Britain" in the Monetary Times of May 9, 1919, the British financial situation was currently revealed with its effects upon colonial financing. "According to the budget speech of Mr. Austin Chamberlain, Chancellor of the Exchequer of the United Kingdom, additional taxes will be needed in Great Britain to meet two-thirds of the national expenditure for the current financial year. The remaining one-third must be raised by borrowing. The condition would indicate that not only will a still greater proportion of savings be required by the state in the form of taxation, but also that further funds will be borrowed on capital account to meet war expenditures. There will undoubtedly be a considerable demand for money in private industry, although the experience of the past few months has been that capital investments on account of "reconstruction" are smaller than was anticipated by those optimists who prophesied great activity and high interest rates upon the return of peace conditions."

"The situation will mean that while some investment money may find its way into Canada during the Calendar year 1919, it will be only at comparatively high rates. In fact, the tendency continues, encouraged by the exchange situation, for British holders of Canadian securities to dispose of them and take a profit by selling the Canadian funds, the recent purchase by Winnipeg of £110,000 of Consolidated stock in London with funds raised here is an instance of this. The Treasury restriction upon the investment of capital abroad is only partially removed, the attitude of the investor, however, and the advantage offered by the Canadian field in comparison with other countries, are the things of real importance in our investment relations with the United Kingdom." The article goes on to quote a gentleman who had been in close touch with financial affairs in London for many years: "The trend of recent events," he said, "adds piquancy to the attempt to forecast in some general way just when the English market will again be thrown open to foreign and colonial borrowers. Late in March the Chancellor of the Exchequer announced that new capital issues by British Companies for purposes that did not involve any part of the capital being sent out of the United Kingdom would be free from Treasury control. At the same time it was decided to remove all artificial restrictions and to set free foreign exchange. Until the full effects of that decision have become apparent and so long as the domestic demands for new capital for trade and industry and national purposes are so pressing, the restrictions upon investments outside the United Kingdom are not likely to be removed. However, the progress already made in that direction is most significant. As the Britisher is absolutely wedded to the idea of a free market it is only a question of months before the Treasury fully relaxes its grip and permits the large financial houses to play their part. The rapid revival of industry would undoubtedly hasten that event, as large foreign export trade has, in the past, been accompanied by corresponding loans abroad. It must not be forgotten, however, that the Chancellor of the Exchequer has still to fund into long-term obligations, treasury bills amounting to $5,000,000,000 and, during the ensuing financial years at least $3,500,000,000, to realize the budget estimate entirely, apart from receipts of taxation."

"The drop in the rate of exchange has meant an additional profit for the British holders and many have taken advantage of higher prices to liquidate Canadian securities since late in March. In many instances the sellers have expressed a determination to replace those Canadian investments later on when market conditions become more favourable. General confidence in Canada is stronger than ever and the British investor will be found ready and willing to assist most liberally Canadian development in years to come. Many difficulties at the moment will disappear with the passage of time and the relationship of the pre-war period between Canada and Great Britain will be re-established."

This stagnant condition, from a Canadian financial point of view, continued in Britain throughout the following year as Great Britain domestically absorbed her surplus funds in domestic reconstruction. The Monetary Times of May 21st. 1920, under the heading "Much New Financing in Britain" writes: "Great Britain, as well as Canada is experiencing a flood of new security issues: bank credit is in great demand for speculative purposes while the market for good securities is stagnant. Whatever else may happen," says the April number of the United Empire, the journal of the Royal Colonial Institute, "so long as the industrial activity at home continues, the resources of the banks will be strained and the general rate of interest will remain high. The tendency now is for it to go higher, month by month, and this will not render the path of the colonial borrower too easy on Lombard Street. The flood of new industrials is steadily depreciating gilt-edged securities, both British and Colonial; this will only be temporary, no doubt, but while it lasts the depreciation of capital and the increase of interest must be taken into account. It will still be worth while for Colonial Governments to borrow in the city for necessary public works of course, and fortunately there is a class of solid investor who prefers these staid government loans to the inevitable risks and chances of more speculative industrials, but there is no disguising the fact that fashion for the moment is with the latter.

The additional British tax on interest and dividends from securities held outside the United Kingdom was removed on April 5th. 1921 with the result that that year saw a fairly substantial return of British capital to Canada although sterling exchange had only risen to $4.55. During 1921 a total of $12,151,000. or 4.15 per cent of Canada's total borrowings for the year was raised in London. Railroad borrowing accounted for $9,733,000 while $2,418,000 was invested in Canadian Corporations. (1)

It was felt that Canadian securities, being relieved of the special levy of two shillings per pound would once again be placed upon a competitive basis with those of Great Britain and that the following year would see an increase in Canadian securities offered in London. However, the optimism of 1921 was not justified by the investment trend of 1922. The anticipated strengthening of sterling exchange did not appear, the rate fluctuating about $4.55 throughout the year with a decided strengthening to $4.70 in the last few weeks. (2)

This decided strengthening gave rise to anticipated English borrowing for 1923. The December 29th. 1922 issue of the Monetary Times printed an article written in New York under the caption: "London Market Looks Promising" in which, after referring to a current rumour of an impending Dominion of Canada loan, writes: "Little is heard, however, of any detailed character, (Concerning loan), and Canadian bankers resident in New York are inclined to believe that little has been done, as yet, toward opening negotiations with American investment bankers. Also, it is believed that further

---

(1) Monetary Times Annual, Jan. 1922, p. 102

(2) See graph of sterling exchange in appendix.

improvements in the status of the pound sterling in Canada and the United States will make London a formidable contender for the next big Canadian loan. The recent improvements in the British market for investments has not been unnoticed here and American Investment bankers have been speculating not a little, lately, as to the possible effect that this change for the better may have on foreign borrowing in New York.

1923 was the biggest year in Canadian financing since the war. The failure of the Home Bank, the European war scare, and the prevailing policy in Canada to do as much financing as possible at home, combined to give the Canadian investment banker the second largest proportion of new Canadian financing in their history. Of the $493,143,667 total new financing, Canada domestically absorbed 82.21 per cent, the United States 17.16 per cent and Great Britain .63 per cent, an amount of $2,432,000 invested in corporation securities. (1)

Towards the latter part of 1923 a strong advance in sterling to $4.72 suggested a possible large scale return to the London market, but a slight reverse in the trend enabled New York to outcompete London for large Norwegian and Swiss loans and established New York as the most advantageous market for foreign borrowing at that time. Similarly, throughout 1924, the continuing

---

(1) See tables in appendix.

low exchange rates maintained Canadian borrowing in London at a low figure, $3,622,500. (1)

The year 1925 saw sterling exchange return to par and the removal of the government's embargo on the issue of foreign loans in London. Commenting on this latter, the Monetary Times, December 11, 1925, writes "An event of the month which is of interest to Canada is the decision of the Government to remove the embargo on the issue of Dominion and foreign loans, which, it is hoped, may gradually pave the way for a revival of the flow of British capital into Canada, which has practically ceased since the war."

In 1925 and 1926, $6,078,333 and $9,000,000 of British capital came into Canada, amounts considerably less than investment circles anticipated. Though sterling exchange was no longer an influence, the relative interest rates in Britain had continued their rising tend. Housing and domestic reconstruction maintained a heavy internal demand for capital which decreased the relative attractiveness of Canadian investments. (2)

The British public did not appear to be particularly interested in Canadian speculative

---

(1) Monetary Times Annual, Jan. 1925

(2) See Appendix.

enterprises as evidenced by the following article in the Monetary Times of August 15, 1924, entitled: "Canadian Mines in London". "In spite of much publicity, sometimes adverse but generally favorable. given to Canadian Mining in London, England, the British public did not respond to an offering of 750,000 shares of Anglo-Ontario mines at four shillings a share."

"The possibility of getting British capital for Canadian mines in this way is poor. The Britisher prefers an underlying security and there are no underlying securities on mines. The properties involved in the above mentioned offering were mostly unproved."

From 1926-1929 business enjoyed increasing prosperity which was reflected in the greater activity of the stock and bond markets. During this period there appeared a shift in investor's preference from bonds to stocks and in the latter part of 1928 British investors made an auspicious entry into the Canadian stock market. In midsummer of 1928 a tight money situation appeared in Canada which suddenly dampened the volume of business being done in the Canadian stock exchanges. In the early fall, with sterling exchange back at par, the British investors reentered the Canadian market on a larger scale than at any time since 1913. Indications of reviving interest had been observed earlier in the year when large amounts of Brazilian Traction, sold to Canada in 1927, were repurchased in 1928, and a large amount of the securities of the British Columbia Power Corporation was absorbed by British investors.

After a dull period during the summer of 1928 the exchanges enjoyed extreme activity at rising prices during October and November, featured by tremendous buying orders from London and Glasgow. This buying, spread over a fairly wide range of stocks, converged particularly on issues of the type of Brazilian Traction, International Nickel, Massey-Harris, British Columbia Power, National Steel Car, Shawinigan and Montreal Power. (M.T.A, 1929)

Writing concerning this particular stock market activity in the latter part of 1928 under the title, "Interest of British Investors in Canadian Stocks Revives," in the Monetary Time Annual of 1929, Joseph H. Copeman remarks: "I believe this revival of interest on the part of British investors in our common stock equities constitutes by far the most important development of the year on our exchanges. After considerable lapse our markets are again closely in contact with a source of capital supplies that contributed so largely to the outstanding success of Canadian enterprises of the past -- the building of the C.P.R. for example -- and as our needs for new capital in the years immediately ahead are bound to be very heavy, it is of great importance that London is again actively in our market."

Canadian bonds during 1928 were also absorbed on the London market to a larger extent than for some years past. The estimate of the amount placed there works out to about 3.5 per cent of the total sales which, with the exception of 1921, (which showed 4.1 per cent), is the highest since 1915. This total which was approximately $16,000,000, was approximately distributed as follows: $10,000,000 government, $4,893,000 public utility and the balance industrial and miscellaneous (1)

The year 1929 saw the historic world wide financial collapse and the years 1929 to 1937 encompassed a period of severe depression and moderate recovery, a period during which the pace of foreign investments in Canada slackened substantially.

The slow rate of increase in the amount of Canadian bonds annually absorbed in Great Britain, which had been observed since 1922, continued during 1929. Of the $ 628,016,207 of new financing during that year, Great Britain accounted for roughly 5 per cent, or $19,109,000 distributed as follows: $3,650,000 Provincial bonds, $10,459,000 municipal bonds and $5,000,000

(1) Monetary Times Annual Jan. 1929.

corporation bonds. In the stock market the rapid increase in purchases of Canadian stocks by London, which tended to avert a serious situation in the Canadian stock market in 1928, seemed to be absent in 1929.

Prevailing easiness in money rates and a disposition on the part of the public to turn bonds rather than stocks enabled Canadian bond sales in 1930 to reach a new high since the war. British investments, however, in that year experienced a sharp falling off to a mere 1 per cent of the total or $6,500,000.

This decrease in British interest in Canadian bonds continued throughout 1931, due largely to British pre-occupation with European and Australian finance, and was automatically accentuated when Britain relinquished the gold standard in September. 1931 was the biggest bond selling year in Canadian financial history and was especially marked by the fact Canada handled 85.78 per cent of the large total of $1,250,257,011 at home.

Canadian bond financing in 1932 experienced a marked decline influenced by international political and economic developments. Owing to the market drop in the Canadian dollar, financing in the United States was unfavourable so that the greater portion 79 per cent of the new issues were absorbed at home. Alberta, British Columbia, and New Brunswick each placed issues in the

London market which totalled $14,250,000, the major part of the 3 per cent that was subscribed to in England. The reception of these issues was not very encouraging. The London "Economist" reported that of the last of the provincial issues (about £1,000,000 in June) 80 per cent was left with the underwriters.

1933 was an interesting year from a Canadian financial viewpoint. The most important factor which influenced the sale of Canadian securities was the abandonment of the gold standard by the United States. This action, and legislation which followed quickly, brought about a readjustment in the relative exchange values of the Canadian and American dollars and the pound sterling, eventually bringing all three exchanges into their old parities.

As the pound sterling rose to a premium in Montreal, London again became a substantial buyer of Canadian Securities. Figures for the international movement of securities being unavailable until 1933 it has been necessary to confine observations to bond financing. With increased industrialization, international dealings in stocks acquired sizeable proportions. The Financial Post Business Year Book, 1932 estimated that 80 per cent of the foreign industrial investments were in stocks. The accompanying table shows the dealings in securities between Canada and Great Britain.

TRADE IN SECURITIES (1)

	Sold to Great Britain	Purchased from Great Britain
1933	$ 80,807,813	27,587,814
1934	102,112,195	23,757,319
1935	30,991,264	44,128,493
1936	71,788,317	59,695,125
1937	105,675,280	85,558,617

The second important development of the year was the particularly successful flotation by the Dominion Government of £15,000,000 of its 4 per cent bonds in the London market - the first Dominion Government loan in England for twenty years. This loan was oversubscribed many times and in spite of subsequent exchange fluctuations remained at a premium over issue price. For the first time since 1914 Britain absorbed a larger percentage of Canadian securities than did the United States, the percentage being 74, 11, and 13 for Canada, U.S. and Great Britain respectively.

A continued strong sterling exchange during 1934, together with a depreciated United States dollar saw England absorb 10 per cent of the total new Canadian securities while the United States subscriptions were

(1) Sales and Purchases of Securities between Canada and other countries, Dominion Bureau of Statistics.

reduced to zero. The British total during this year was distributed approximately as follows: $50,000,000 Dominion Government loan, $6,230,000 city of Montreal loan, and $2,100,000 Corporation securities issued by the Jamaica Public Services Ltd.

This return to the British market gave rise once again to hopes that in future years Canada would be able to transfer a considerable portion of her financing burden to the London market. However, 1935 saw a complete falling off of British interest attributed, somewhat, to political disturbances in Canada during the year. One small loan of $500,000 by the Hamilton By-Products Ltd. (1) being the extent of British interest during 1935.

In 1936 and 1937 Canada's total of new financing continued its increasing trend, begun in 1932, but London interest continued to grow weaker. $1,250,000 of corporation securities were reported to have been placed in London in 1936 while 1937 saw no new financing whatever in England and only 7.64 per cent found its way to New York. The trend in regard to new Canadian financing is to absorb the issues in the home market.

Since the war, i.e.1920, a large portion of

(1) Monetary Times Annual Jan. 1935 p 120.

foreign capital invested in Canada has been in the form of branch plants, an all-embracing term including all foreign subsidiary and affiliated concerns located in Canada. In 1934 the Financial Post Business Year Book estimated that one third of the United States investments in Canada were in the form of branch plants. Although Canada's Empire affiliations did not render her a more favourable shipping base for British products, nevertheless, the purchasing power of the Canadian home market augmented by the thousands of tourists who visit Canada annually, plus Canada's natural advantages in the form of raw materials, labour and power, was sufficient to induce 172 British branch plants to locate in Canada according to a Bureau of Statistics inquiry in 1930.

Capital employed by these firms which included Fry's, Rowntree's, Yardley's, Crosse & Blackwell, de Havilland, Imperial Tobacco, Vickers and English Electric among the better known, was $199,141,000. Sixteen of the 172 were wholly owned abroad and had not been incorporated as Canadian while the remaining 156 were subsidiary companies with Canadian incorporations. Of the above 152, 30 were entirely owned by British capital, 56 were 90% British, 8 over 80%, 10 over 70%, 11 over 60%, 12 over 50% and 23 less than 50% and 6 were controlled by British and American capital. The distribution of the total capital ownership was as follows: Canada $24,387,000 or 12%, Great Britain $164,561,000 or 83%, United States $9,415,000 or 5%.

When viewed in the light of American investments of this type, Britain's share of branch plants in Canada appears insignificantly small. British manufacturers are often accused of letting American interests gain an undue economic and financial grip on Canadian industry, a situation commonly viewed with alarm.

While it is true that British business men are inherently more conservative than their American brothers, the nature of branch plant opportunities in Canada distinctly favour the American manufacturer. Canada offers Britain no advantage as a shipping base from either a geographical or political viewpoint. In addition, the distance factor and prevailing Canadian business methods distinctly aid the American industrialist in establishing a branch plant in Canada. A British director is 3000-5000 miles distant from his branch, rendering personal contact a matter of weeks in contrast to the American's overnight transportation facilities. Further, American large scale standardized production methods especially lend themselves to efficient branch plant production.

It is possible that the future may see a relatively larger influx of British capital in the form of Branch plants. Canada's high standard of living reflected in a high per capita purchasing power makes her an especially valuable field for manufacturered goods. High pressure American merchandising methods render British competitors extremely impotent when operating from their native base and scientific advancement in the realm of transportation and communication is constantly lessening the difficulty of British head office control.

C H A P T E R VI

C O N C L U S I O N

What of the course of Canada's future borrowing? Should she return to her policy of heavy external borrowing or should she continue her latest trend of relying upon her own resources for her major capital requirements?

Though expansion in Canada from 1920-1929 was considerably out of line with demand, Canada is still a new country with extensive resources to be developed and will require large capital expenditures on governmental and private account in the future. The demand for capital is becoming gradually more intense and the demands for government works, for industrial modernization and technical improvement, along with new capital ventures encouraged by accelerating business conditions, should continue this trend in the immediate future.

There is nothing wrong either in theory or practice in borrowing whether it be domestic or foreign. The real point of consideration is the use to which the funds are put. If Canada's projects are sound and money is available at reasonable rates in foreign markets it has proven to her advantage in the past to seek capital for long term requirements abroad. No substantial evidence suggests that it should be otherwise in the future.

To what extent will Great Britain continue to supply funds to Canada? It is extremely unlikely that Canadian borrowing will ever return to the British market to the extent of pre-war days. Canadian securities will always enjoy a high status in London. The events of the past twenty years have established a confidence greater than ever in Canada's future. The ability of Canadian securities to maintain themselves throughout the war and depression and her ability to fall back upon her own resources indicated the inherent strength of the country and created a most favourable impression throughout the world.

Though London will always retain its position as a leading money market of the world, and the conservative Englishman will always be content with smaller profits and lower returns than the American financier, nevertheless many factors favour a continued Canadian reliance upon New York. To quote the Financial Post Business Year Book "Our geographical situation makes it natural that we should borrow industrial and engineering techniques, financial and accounting systems, and styles, tastes and fashions from the United States. Our economic patterns are much more like those of the

United States than those of Great Britain. The borrowing of capital is a natural corollary to these facts."

Moreover the United States is a rich but comparatively inexperienced foreign investor. Its large volume of surplus funds seeking investment abroad prefers the easy road to familiar and nearby fields to the more difficult and less familiar situations that exist elsewhere."

In the same manner that migrating capital ignores international boundaries and naturally goes to countries where the prospects are most secure and the best returns expected, it seems most probable that Canada's future borrowing will be directed towards the money markets where borrowing conditions appear most favourable, where prevailing interest rates and exchange rates operating in the competitive sphere of international finance will render public borrowing must profitable to Canadian interests.

The tables and graphs presented herewith reveal in a comprehensive form the trend, and influences affecting that trend, of Canadian borrowing.

Interest rate figures have been taken from the yield on Ontario Government Bonds, 2½% British Consols and U.S. Government Bonds, representative high grade investments in Canada, Great Britain, and the United States respectively. The relative desirabilities have been worked out from the above and plotted below chart 4, and the course of the red curve reveals to a large degree the story of British investment in Canada. From 1924 - 1931, when a marked return of British capital was annually anticipated, there existed very little inducement in the form of differential return. In 1932 the falling interest rate in Britain was neutralized from a foreign investment point of view by the decline in the value of the pound sterling when Great Britain relinquished the gold standard.

On the other hand the complementary nature of the dotted curve (chart 4) explains, to a large degree, the invasion of American capital into Canada.

Chart 5 shows quantitatively the distribution of Canadian borrowing between Canada, Great Britain, and the United States. The figures from 1900-1909 have been taken from Viner's estimates of British capital only (p.31) and those from 1910 - 1937 are the compilation of Canadian bond sales published by Dominion Securities. Viner's compilations are more inclusive than those from 1910-1937 and should be reduced approximately 25% for a truly comparable interpretation.

The influence of prevailing exchange rates is restricted to periods of violent fluctuations as in the case of the pound sterling during the post war period until 1925 when the gold standard was restored and after 1933 when it was again abandoned, and in the United States in 1933 when the gold standard was abandoned in that country.

PREVAILING INTEREST RATES

1900 - 1936

	Province of Ontario	Consols	U.S. Bonds
1900	3.61	2.76	3.12
1901	3.77	2.92	3.13
1902	3.79	2.91	3.20
1903	3.76	2.82	3.38
1904	3.77	2.83	3.45
1905	3.63	2.78	3.40
1906	3.67	2.83	3.57
1907	4.04	2.97	3.86
1908	4.14	2.90	3.93
1909	3.89	2.98	3.78
1910	3.95	3.08	3.97
1911	3.93	3.15	3.98
1912	4.14	3.28	4.02
1913	4.34	3.39	4.22
1914	4.30	3.34	4.12
1915	4.68	3.82	4.16
1916	5.14	4.31	3.94
1917	5.51	4.57	4.20
1918	6.01	4.39	4.50
1919	5.63	4.62	4.62
1920	5.97	5.31	5.32
1921	6.00	5.21	5.09
1922	5.42	4.42	4.30
1923	5.19	4.31	4.36
1924	4.94	4.38	4.06
1925	4.77	4.43	3.86
1926	4.79	4.55	3.68
1927	4.54	4.56	3.34
1928	4.43	4.47	3.33
1929	4.89	4.60	3.60
1930	4.71	4.48	3.28
1931	4.62	4.39	3.31
1932	5.20	3.74	3.36
1933	4.68	3.39	3.31
1934	4.11	3.10	3.10
1935	3.87	2.89	2.70
1936	3.59	2.94	2.48

DESIRABILITY QUOTIENTS

	Ont./ U.S.	U.S./ Consols	Ont./ Consols
1900	116	113	131
1901	120	107	129
1902	118	110	130
1903	111	120	133
1904	109	122	133
1905	107	122	131
1906	103	126	130
1907	105	130	136
1908	105	136	143
1909	103	127	131
1910	100	129	128
1911	99	126	125
1912	103	123	126
1913	103	124	128
1914	104	123	129
1915	112	109	122
1916	130	91	119
1917	131	92	121
1918	134	102	137
1919	122	100	122
1920	112	100	112
1921	118	98	115
1922	126	97	123
1923	119	101	120
1924	122	93	113
1925	124	87	108
1926	130	87	105
1927	136	73	100
1928	133	75	99
1929	136	78	106
1930	144	73	105
1931	140	75	105
1932	142	98	139
1933	141	98	138
1934	133	100	133
1935	143	93	134
1936	145	84	122

SALES OF CANADIAN BONDS - SUMMARY - 1917 - 1937 (Inclusive)

	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928
Dominion of Canada	$298,500,000	$282,335,600	$386,000,000	$348,666,666	$408,000,000	$226,250,000	$864,307,500	$100,000,000	#$115,310,500	$ 78,876,333
Provincial	143,362,000	93,985,000	123,407,000	128,312,000	67,874,000	136,440,301	123,157,205	158,081,800		
Municipal	51,960,688	34,340,555	44,323,986	24,196,974	42,495,246	84,420,174	86,770,306	113,211,556	99,579,207	29,909,525
Railway	65,880,000	133,000,00	48,400,000	32,500,000	1,000,000	12,500,000	121,750,000	138,487,000	198,000,000	43,396,000
Public Service Corp.	49,918,500	113,025,000	15,388,000	44,427,400	7,125,000	6,245,000	45,300,000	143,120,500	83,100,000	58,260,000
Industrial & Miscellaneous	61,603,300	112,600,224	41,393,300	6,131,596	2,725,000	1,840,000	8,972,000	52,190,000	132,026,500	213,183,000
TOTAL	$671,226,488	$769,286,379	$658,912,286	$584,234,636	$529,219,246	$467,695,475	$1,250,257,011	$705,090,856	$628,016,207	$423,624,858
Percentage Placed in Canada	92.36%	90.63%	82.40%	90.63%	74.87%	79.55%	85.78%	51.82%	52.42%	48.50%
Percentage Placed in U.S.A.	7.64%	9.22%	17.60%	Nil	11.34%	17.35%	13.62%	46.51%	43.18%	47.96%
Percentage Placed in Great Britain	∅	.15%	-	9.35%	13.79%	3.10%	.60%	1.67%	4.40%	3.54%

NOTE: (1) Treasury Bills of less than one year are not included, nor are Treasury Bills issued to the Dominion Government by the Provinces for advances from the former.

(2) Issues of parishes or ecclesiastical institutions are listed under Industrial & Miscellaneous.

\# From 1929 down to 1917 Dominion of Canada and Provincial issues are included in one total

SALES OF CANADIAN BONDS - SUMMARY

1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917
$149,945,500	$177,732,000	$248,955,000	$266,290,800	$281,339,500	$333,727,000	$133,488,500	$ 113,455,500	$781,812,000	$704,632,729	$675,182,500
70,761,832	65,452,234	50,156,177	91,697,376	83,819,847	79,010,374	88,805,973	58,994,728	27,166,393	45,806,720	26,104,067
80,000,000	34,500,000	40,925,195	157,375,000	27,500,000	12,790,000	101,160,000	96,500,000	35,355,135	5,000,000	22,566,666
96,225,000	126,750,000	65,874,500	39,161,900	34,130,000	9,751,500	15,450,000	11,500,000	20,950,000	2,375,000	15,425,000
211,212,067	165,482,188	52,676,000	38,233,680	66,354,320	47,576,400	61,290,345	36,381,853	44,100,202	6,155,000	17,067,800
$608,144,399	$559,916,422	$458,506,872	$592,758,756	$493,143,667	$482,855,374	$400,184,818	$318,832,081	$909,383,728	$763,968,449	$756,346,033
49.18%	50.20%	56.76%	64.58%	82.21%	46.04%	50.36%	32.82%	76.89%	94.87%	74.63%
49.06%	47.95%	42.24%	34.32%	17.16%	53.52%	45.49%	67.18%	22.54%	4.70%	24.71%
1.76%	1.85%	1.00%	1.10%	.63%	.44%	4.15%	-	.57%	.43%	.66%

NOTE: (1) Treasury Bills of less than one year are not included nor are Treasury Bills issued to the Dominion Government by the Provinces for advances from the former.

(2) Issues of parishes or ecclesiastical institutions are listed under Industrial and Miscellaneous

From 1929 down to 1917 Dominion of Canada and Provincial issues are included in one total

December 20th. 1937.

SALES OF CANADIAN BONDS - SUMMARY

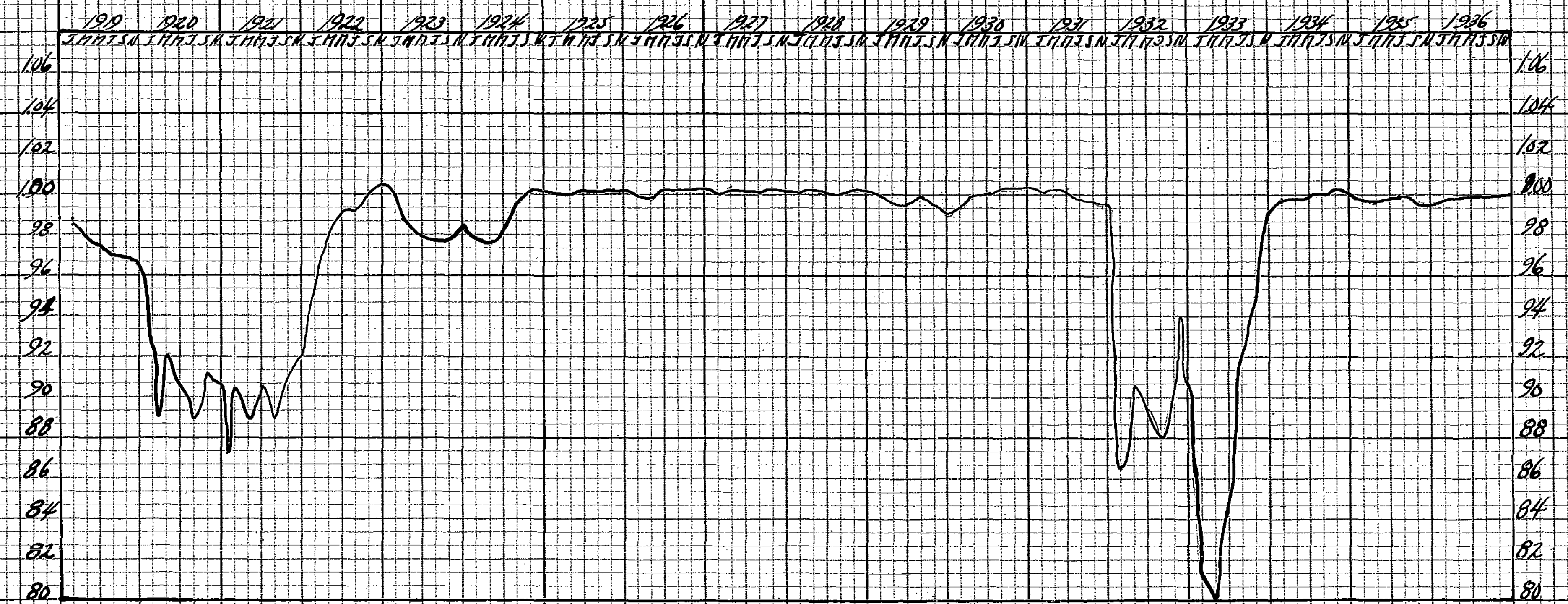
1916	1915	1914	1913	1912	1911	1910
$208,621,935	$214,814,135	$ 85,415,330	$ 53,066,550	$ 35,639,700	$ 5,675,000	$ 65,000,000.
49,893,765	66,508,073	84,388,431	115,761,925	48,414,962	47,159,288	35,748,690
15,920,000	37,915,665	59,405,666	108,528,044	69,972,320	100,472,700	69,950,000
22,960,000	10,225,000	9,777,954	26,574,479	21,565,000	32,105,500	7,945,400
19,531,666	12,430,000	33,947,686	69,864,297	97,346,000	81,400,500	62,356,500
$316,917,362	$341,892,871	$272,935,067	$373,795,295	$ 272,937,982	$266,812,988	$ 231,000,590
33.56%	43.71%	12.09%	12.20%	13.82%	16.86%	17.00%
64.89%	42.11%	19.77%	13.56%	11.35%	6.58%	1.50%
1.55%	14.18%	68.14%	74.24%	74.83%	76.56%	81.50%

POUND STERLING

1.

Average quotations of the pound sterling in terms of Canadian Dollar for the years 1919 - 1936

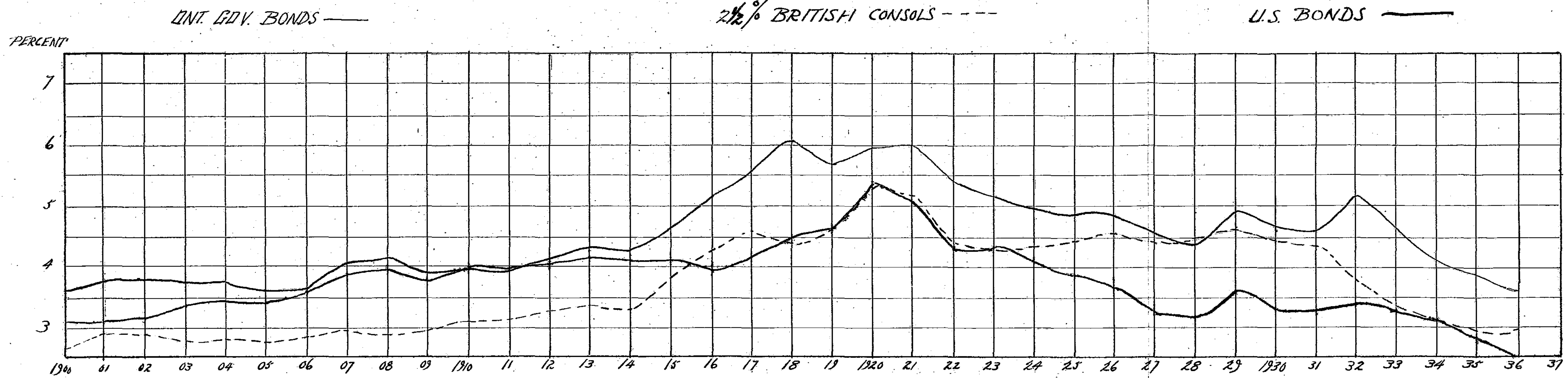
CANADIAN DOLLAR



2.

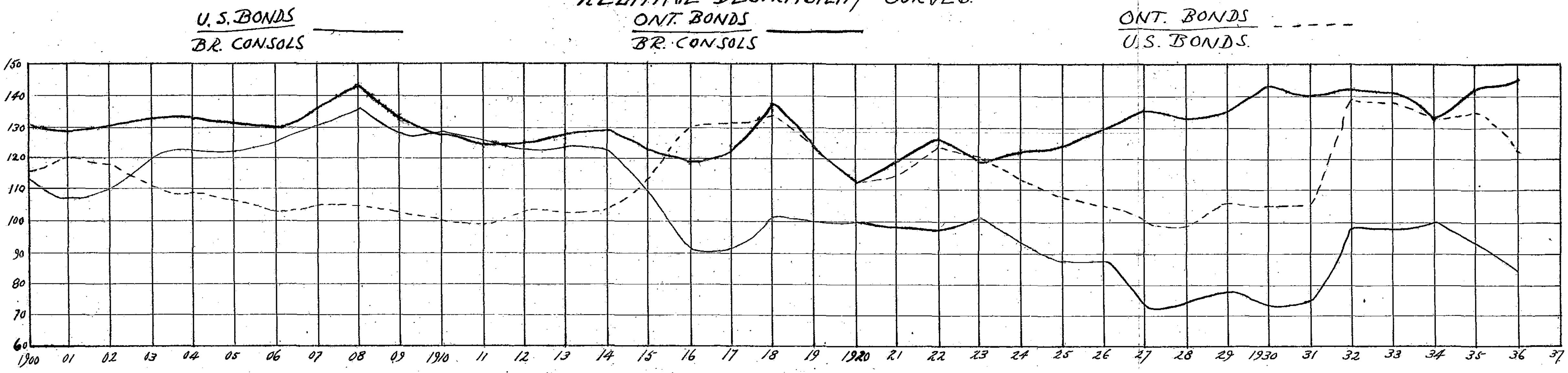
A seventeen-year record of variations in the value of the Canadian Dollar expressed in terms of the American Dollar.

INTEREST RATES



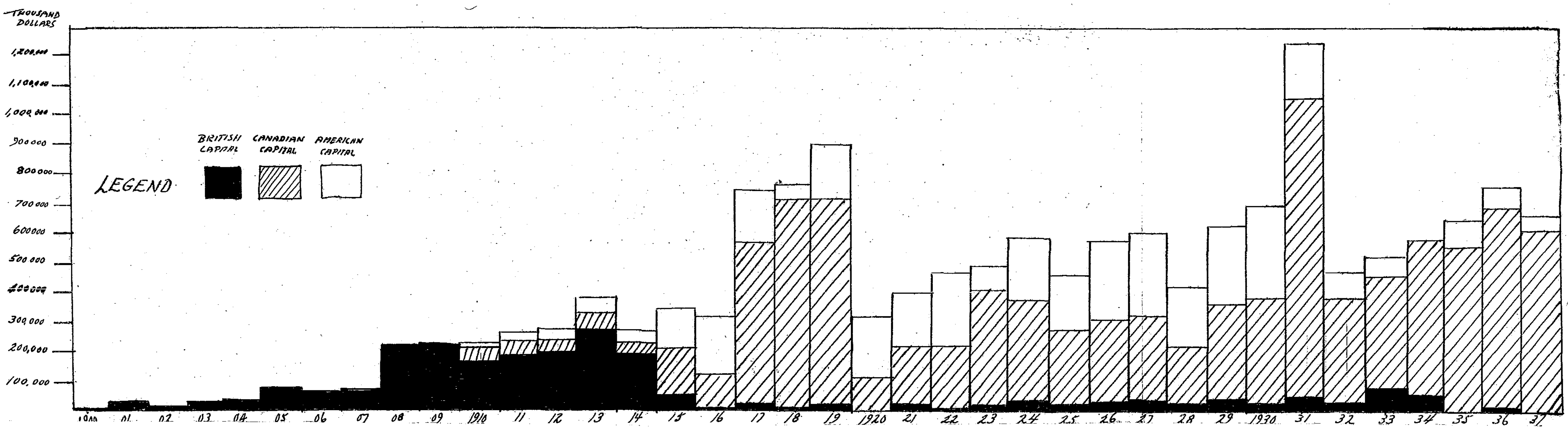
3

RELATIVE DESIRABILITY CURVES.



4

QUANTITATIVE DISTRIBUTION OF CANADIAN BORROWING.



5

Estimated British Capital Invested in Canada, Classified According to Main Types

(December 31, 1926 - 1936)

(Amounts are expressed in millions of dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
Government Securities —											
Dominion	250.1	246.2	242.0	238.5	234.5	229.2	222.3	291.4	323.3	318.6	318.8
Provincial	72.6	70.6	74.5	71.2	69.3	67.4	81.1	74.2	71.9	68.4	67.8
Municipal	187.0	185.2	185.3	185.8	182.1	172.7	150.8	143.9	147.6	139.4	137.6
	509.7	502.0	501.8	495.5	485.9	469.3	454.2	509.5	542.7	526.3	524.2
Public Utilities —											
Railways	1,111.5	1,096.6	1.074.7	1,097.6	1,096.9	1,100.1	1,092.9	1,088.5	1,078.2	1,073.9	1,068.3
Other - Traction, Light, Heat, Power, Telephone etc.	111.9	125.8	134.9	148.8	158.6	167.6	176.7	180.5	184.0	187.2	184.8
Manufacturing —											
Wood and paper products ...	96.0	104.0	115.5	114.9	120.8	106.5	98.1	92.3	92.5	93.7	94.5
Metal industries	72.4	77.1	83.8	91.9	91.7	88.5	75.6	73.4	75.6	77.3	78.2
All other manufacturing industries	185.0	197.9	211.5	223.8	215.7	205.2	186.6	188.2	195.0	202.5	204.9
Mining	95.0	99.0	117.0	120.0	98.0	95.0	87.0	87.0	91.0	85.0	89.0
Merchandising and Service ...	77.0	79.1	81.9	83.7	82.3	77.7	73.9	71.8	72.6	74.2	73.6
Insurance	54.5	54.9	54.1	62.2	58.4	57.4	61.4	66.8	61.9	90.6	86.5
Finance and Mortgage Corporations	139.8	143.9	157.4	169.8	188.7	183.8	158.3	155.8	156.0	158.6	161.5
Miscellaneous (agricultural lands, summer homes, prospecting, assets administered for persons or corporations residing outside Canada etc)	145.0	150.0	161.0	166.0	171.0	165.0	165.0	160.0	160.0	160.0	160.0
GRAND TOTAL	2,597.8	2,623.3	2,693.6	2,764.2	2,766.0	2,687.1	2,631.7	2,674.4	2,729.5	2,729.3	2,725.1

Note: Figures for 1936 are preliminary.

B I B L I O G R A P H Y

Texts

C.K. Hobson	The Export of Capital
Leland Hamilton Jenks	The Migration of British Capital to 1875
G.D.H. Cole	British Trade and Industry
Jacob Viner	Canada's Balance of International Indebtedness.
F.W. Field	Capital Investments in Canada
H.A. Innis	History of Canadian Pacific Railroad
Castell Hopkins	Canada, An Encyclopedia

Pamphlets

C.K. Hobson	Effect of War upon Supply of Investment Capital 1915

Report of Investment Dealers' Association of Canada submitted to the Royal Commission on Dominion-Provincial Relations.

Periodicals

Monetary Times, The Economist (London), Financial Post, Financial Post Business Year Book, Journal of Royal Statistical Society, Journal of Political Economy.