

CANADA

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# BUDGET SPEECH

DELIVERED BY

HON. WILLIAM S. FIELDING, M.P.

MINISTER OF FINANCE

IN THE

HOUSE OF COMMONS

THURSDAY APRIL 16

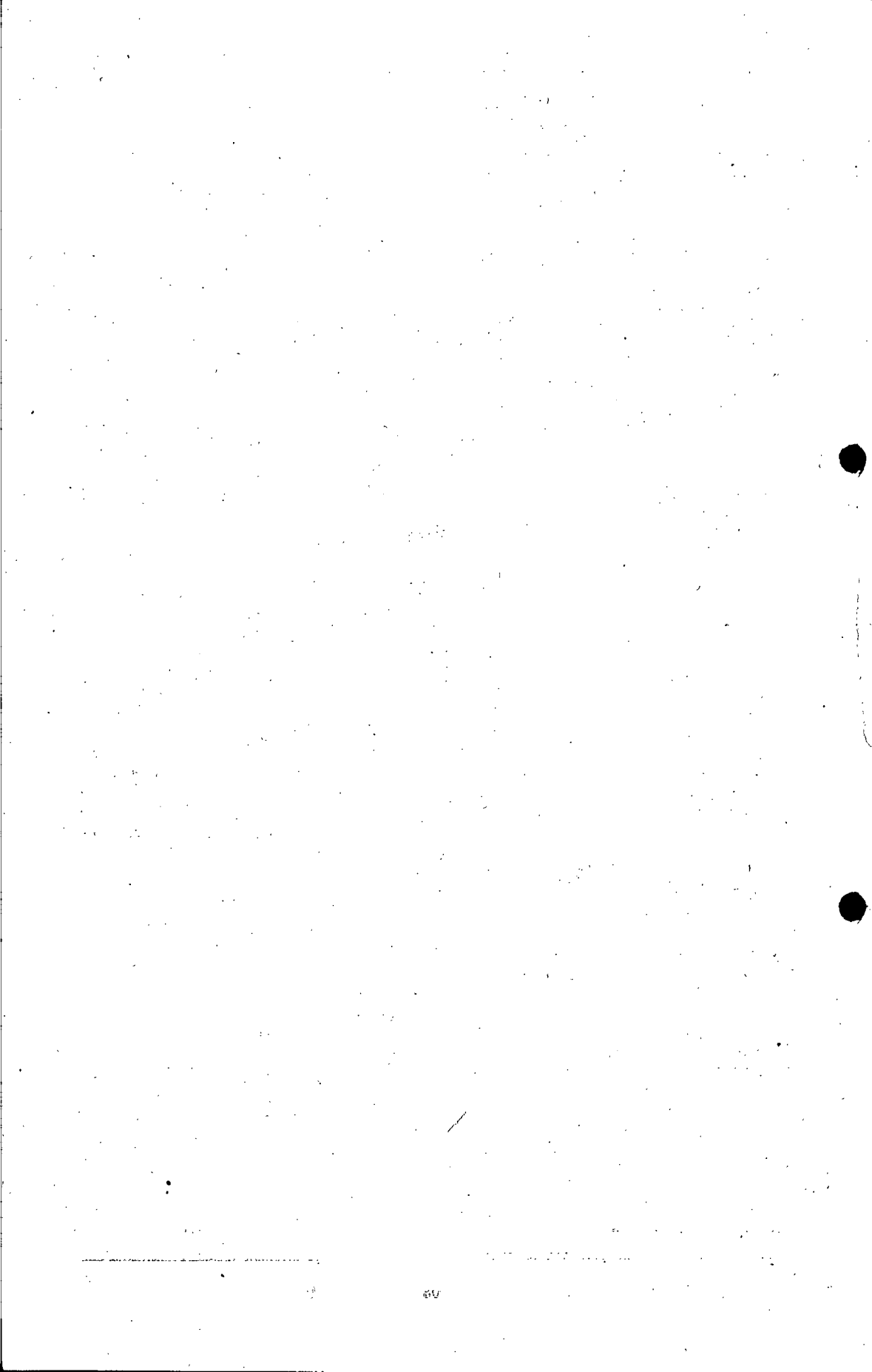
1903



OTTAWA

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EXCELLENT MAJESTY

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## WAYS AND MEANS—THE BUDGET.

The MINISTER OF FINANCE (Hon. W. S. Fielding) moved :

That the House resolve itself into committee to consider of the Ways and Means for raising the Supply to be granted to His Majesty.

He said : Mr. Speaker, in presenting my seventh budget it is once more my good fortune to be able to submit to the House a statement of the affairs of the Dominion for a period of unexampled prosperity. Two years ago, after several years of rapid progress, there was anxiety in the minds of many observing men. Some, indeed, thought we had already entered upon a period of depression. Others, and among them I count myself, felt that while we were not likely to have any period of severe depression, we might reasonably experience a check upon the very great prosperity of recent years. However, as it turned out, all these fears were unnecessary. The prosperity of that time has continued. Each succeeding year has shown an increasing record, and we find ourselves to-day with an outlook that is in every respect encouraging and satisfactory. I take up the affairs of the fiscal year ending the 30th of June

last, the accounts of which have been before the House for some time. I am sure that hon. gentlemen will agree with me when I say that the exhibit made for that year in the public accounts is a very gratifying one.

Some hon. MEMBERS. Hear, hear.

The MINISTER OF FINANCE. In some respects the results surpassed the conservative estimate which I ventured to submit to the House in the last budget speech. My estimate of the revenue was \$56,800,000 and my estimate of the expenditure chargeable to income was \$51,000,000, leaving a probable surplus of \$5,800,000. So far as the expenditure was concerned the estimate proved to be a very close one, the actual expenditure being \$50,759,391, but on the revenue side the last months of the year proved to be so very prosperous that our revenue exceeded the expectation by a very considerable sum. The revenue reached the sum of \$58,050,790, being greater than my estimate by \$1,250,790, and greater than the revenue of the previous year by \$5,536,088. It too often happens that increase of revenue is accompanied by a corresponding increase in expenditure, but in this case it was not so.

The expenditure, as I have shown, was very close to the estimate which I formed; it proved to be somewhat less. But while my estimate of the expenditure was a close one, the revenue as I have already pointed out exceeded my estimate by a considerable sum; the result being that instead of a surplus of \$5,800,000 which I estimated, we closed the year with an actual surplus of

\$7,291,398. If I except the surplus of our own showing of two years earlier, this is the largest surplus that has ever been recorded in the public accounts of Canada. The increases of revenue will be found in nearly all departments. I have here a statement giving a comparison of the receipts in the various branches for the years 1901 and 1902. That statement is as follows:

DETAILS OF REVENUE—COMPARISON WITH 1900-1.

Service.	1901-2.	1900-1.	Increase.	Decrease.
	\$	\$	\$	\$
Customs.....	32,191,978	28,425,284	3,766,694	
Excise.....	11,197,133	10,318,266	878,867	
Post Office.....	3,918,415	3,441,504	476,910	
Railways.....	5,918,997	5,213,381	705,616	
Dominion Lands.....	1,227,976	1,517,319		289,342
Miscellaneous.....	3,596,288	3,598,945		2,656
Net increase.....	58,050,790	52,514,701	5,538,088	291,999

The chief increases of revenue over the previous year arose in customs, but there were also large increases in excise, post office, and railways. In this statement which I have read, the item of Dominion lands includes royalties from the Yukon gold fields, and the falling-off is due to the reduction that took place in the rate of royalty. The increase in customs can be ascribed to the

general activity of trade in all departments. Increase of revenue is shown under nearly all heads of the customs business, and only in the case of a few articles was there a falling-off. In excise, too, the increase was general, as appears by the following statement, which gives the quantity of goods and the duties accruing thereon.

EXCISE.

Article.	QUANTITY.		DUTY.		Increase.
	1900-1.	1901-2.	1900-1.	1901-2.	
			\$	\$	\$
Spirits..... Galls.	2,863,950	3,123,430	5,178,275	5,618,113	439,838
Malt..... Lbs.	64,723,616	71,440,519	970,355	1,071,608	100,753
Cigars..... No.	141,096,889	151,780,516	822,738	881,597	58,859
Cigarettes..... "	121,383,584	134,236,634	362,626	400,035	37,409
Tobacco and snuff..... Lbs.	11,330,345	11,569,632	2,308,460	2,433,355	124,895
Raw leaf, foreign..... "	9,843,803	10,704,961	1,026,265	1,137,279	111,014

The increasing revenues and improved condition generally of the finances of the post office is worthy of special note. The following statement covering the expendi-

ture usually given under the head of post office, and including all except civil government, is interesting:

## POST OFFICE.

Year.	Revenue.	Expenditure.	Deficit.
	\$	\$	\$
1896.....	2,964,014	3,665,011	700,997
1897.....	3,202,938	3,789,478	586,539
1898.....	3,527,809	3,575,411	47,602
1899.....	3,193,777	3,603,799	410,021
1900.....	3,205,535	3,758,014	552,479
1901.....	3,441,504	3,981,446	439,941
1902.....	3,918,115	4,023,636	105,221

The actual amount of surplus or deficit in the post office has been the subject of much discussion. There is, however, no room for any misunderstanding on the subject. The Postmaster General has made a statement, in which, for the purpose of comparison with the figures of former years, the service in the Yukon and Atlin districts is omitted, and leaving this out there was a small surplus on last year's operations. Considering that in previous years of comparison there was no charge at all for a service in the Yukon and Atlin, it is perfectly fair to make a comparative statement in this way. But if we put this aside and compare the expenditure of the Post Office Department of to-day with that of former years, we have before us the gratifying fact that while there was in 1896 a deficit of over \$700,000, in the last fiscal year, 1901-1902, this deficit was reduced to \$105,000.

The **POSTMASTER GENERAL**. The deficit in 1896 was \$781,000.

The **MINISTER OF FINANCE**. The figures I have here are \$700,997, but I will look that up. However, the result is the same. In 1896, the last year under the former administration, the deficit in the post office account was upwards of \$700,000. My hon. friend the Postmaster General has not only been able to carry on the service generally in a very efficient manner, but he has extended it, especially in the Yukon and the Atlin districts at a considerable cost, and he closes the year with a deficit of only \$105,221. Even if this were the whole story of the post office, this statement would be a most gratifying one, of which the Postmaster General might well be proud. But the statement becomes immensely better when we consider the great reduction of taxation

which has at the same time taken place in the Post Office Department. When we remember that under previous administrations the domestic rate of postage was three cents, and that under the present administration this has been reduced by one-third, and when we remember the great reductions that have taken place in the postage rates to Great Britain and the colonies, we must all feel that the financial results of the present post office administration have been remarkably satisfactory. It is a record of administration which the government and the Postmaster General (Hon. Sir William Mulock) particularly, may point to with satisfaction.

Some hon. MEMBERS. Hear, hear.

Mr. **SPROULE**. Is that deficit reduced out of the revenue of the post office?

The **MINISTER OF FINANCE**. So far as I am aware, it was. I do not quite see the point of my hon. friend's question.

Mr. **SPROULE**. Simply this, if I may be allowed to explain. I understand that the old deficit of \$700,000 was wiped out by an item put in the estimates for that purpose, but it was not revenue from the post office.

The **MINISTER OF FINANCE**. I do not quite see the difference; the fact remains that at the close of the year 1896 there was a deficiency of some \$700,000. Just how it was paid is of little consequence; and if under the circumstances which I have described, my hon. friend has reduced that to \$105,000, I think that is a record which even my hon. friend from East Grey (Mr. Sproule) should receive with satisfaction.

In the Department of Railways, also, there is a large increase of receipts. We have been spending a great deal of money on the Intercolonial Railway, the returns for which we expect in some degree through increased receipts, but also to some extent, as in the case of the canals, not through direct dividends, but through service rendered in the general development of the business of the country. Nevertheless, it is gratifying to know that the volume of business on the railways has been greatly increased, as appears by the following statement of the revenue, expenditure, and surplus or deficit for a series of years:

REVENUE AND EXPENDITURE—CONSOLIDATED FUND—  
INTERCOLONIAL RAILWAY.

Year.	Revenue.	Expenditure	Expenditure greater or less than revenue by
	\$ cts.	\$ cts.	\$ cts.
1890.....	2,928,080 92	3,481,472 97	+ 553,392 05
1895.....	2,940,717 95	2,950,300 91	+ 9,582 96
1900.....	4,552,071 86	4,431,404 69	-120,667 02
1901.....	4,972,235 87	5,460,422 64	+ 488,186 77
1902.....	5,671,383 91	5,574,563 30	- 96,820 61

Thus, on the Intercolonial Railway proper for the last year there was a surplus of \$96,820.

Mr. BORDEN (Halifax). Does the hon. gentleman include the Prince Edward Island Railway ?

The MINISTER OF FINANCE. I said the Intercolonial Railway proper. But the Railway Department has to deal also with the Prince Edward Island Railway, which is commonly associated with the Intercolonial, but is a different road, with a different gauge and operated under different conditions, and under a distinct account. The Windsor branch is also owned by the government, but is leased to the Dominion Atlantic Railway Company on conditions under which the government keeps up the track and receives a certain part of the earnings; and that railway yielded a surplus for the year of \$33,228. But against

these two surpluses, on the Intercolonial and on the Windsor branch, there was a deficit on the Prince Edward Island Railway of \$72,150. So that taking the operations of these three railways together we find that there was a net surplus for the year of \$57,898.

RAILWAYS—CONSOLIDATED FUND—COLLECTION OF  
REVENUE—INCLUDING INTERCOLONIAL RAILWAY;  
PRINCE EDWARD ISLAND RAILWAY AND WINDSOR  
BRANCH.

Year.	Revenue.	Expenditure.	Surplus.	Deficit.
	\$	\$	\$	\$
1896....	3,140,678	3,254,442	.....	113,764
1897....	3,066,784	3,195,959	.....	129,175
1898....	3,313,847	3,508,648	.....	194,801
1899....	3,945,817	3,696,612	249,205	.....
1900....	4,774,162	4,665,228	108,934	.....
1901....	5,213,381	5,739,051	.....	525,670
1902....	5,918,997	5,861,099	57,898	.....

So far I have been dealing with the expenditures of the year 1901-2 on consolidated account, that is, the expenditures chargeable to income. There were, of course, other expenditures, chargeable to capital and special account, which have to be considered. The following is a comparative statement of our expenditures for 1901 and 1902, covering not only expenditure on consolidated fund account, but also all the items of capital and special expenditure, thus showing our total outlay for the two years :

TOTAL EXPENDITURES 1901-2 COMPARED WITH 1900-1.

Service.	1900-1.	1901-2.	Increase.	Decrease.
	\$ cts.	\$ cts.	\$ cts.	\$ cts.
Consolidated Fund.....	46,866,367 84	50,759,391 97	3,893,024 13	.....
Capital—				
Railways.....	3,914,010 50	5,102,838 99	1,188,828 49	.....
Canals.....	2,360,569 89	2,114,689 88	.....	245,880 01
Public Works.....	1,006,983 39	2,190,125 09	1,183,141 70	.....
Dominion Lands.....	269,060 90	370,837 97	101,777 07	.....
Militia.....	135,884 79	299,697 43	163,812 64	.....
Canadian Pacific Railway.....	8,973 87	448 70	.....	8,530 17
Total Capital.....	7,695,488 34	10,078,638 06	2,383,149 72	.....
Special—				
Railway Subsidies.....	2,512,328 86	2,093,939 00	.....	418,389 86
South African Contingents and Halifax Garrison.....	908,681 42	247,741 45	.....	660,939 97
*Bounties on Iron and Steel.....	.....	791,089 38	791,089 38	.....
Total Special.....	3,421,010 28	3,132,769 83	.....	288,240 45
Total Capital and Special.....	11,116,498 62	13,211,407 89	2,094,909 27	.....
Total Expenditure of all kinds.....	57,982,866 46	63,970,799 86	5,987,933 40	.....

\* Previously paid out of Customs receipts.

The expenditures on capital account for railways, canals, public works, Dominion lands, militia and Canadian Pacific Railway amounted in 1901 to \$7,695,488.34, and in 1902 to \$10,078,638.06. Special expenditures, such as railway subsidies, South African contingents and Halifax garrison, and bounties on iron and steel, show a total in 1901 of \$3,421,010.28, and in 1902 of \$3,132,769.83. Our total expenditure of all kinds in 1901 was \$57,982,866.46, and in 1902, \$63,970,799.86.

Coming now to the affairs of the fiscal year 1902-3, we find an even more satisfactory state of our finances. The revenue from the 1st of July to the 10th of April was \$48,348,125.67, against for the corresponding period last year \$43,169,658.04, showing an increase in the nine months of \$5,178,467.63. I feel confident that the remainder of the year will show a further increase, and I anticipate that the revenue of the year will come very close to, if it does not reach \$65,000,000. Our revenue last year was a little over \$58,000,000, so that the House will see I am counting on an increase of revenue this year amounting in round numbers to seven million dollars. Our expenditure for the current year up to the 10th of April was \$32,870,204.95, and for the corresponding period last year \$31,946,181.16, showing an increase this year of \$924,023.79. It will be observed that while during these nine months our revenue has increased over \$5,000,000, our expenditure, chargeable to income, for the corresponding period has increased less than \$1,000,000. I anticipate that this favourable condition will continue to the end of the year and that our expenditure chargeable to income for this year will be about \$51,650,000, against a similar expenditure last year of \$50,759,391.97, showing a probable increase of expenditure for the year chargeable to income of only \$890,608.03, while at the same time I am counting on an increase of revenue of \$7,000,000. Since I am estimating the revenue at \$65,000,000 and our probable expenditure chargeable to income at \$51,650,000, it follows that at the close of the year, as between our ordinary expenditure chargeable to income and our revenue, we shall have a magnificent surplus of \$13,350,000—a surplus far and away above any previous surplus in the financial history of our Dominion.

Associated with a question of this character there is always of course the question of our public debt.

An hon. MEMBER. Hear, hear.

The MINISTER OF FINANCE. 'Hear, hear' says my hon. friend opposite, and I am delighted to be able to assure him that upon that point also I have a statement to make as to which we need not fear any comparison. I have here a statement of the increases and decreases of the public debt, as they have occurred from time to time. Those increases and decreases in our net public debt are as follows:

NET DEBT—STATEMENT FOR SEVEN YEARS

	Increase.	Decrease.
1897.....	\$ 3,041,163	
1898.....	2,417,802	
1899.....	2,317,047	
1900.....		\$ 779,639
1901.....	2,986,196	
1902.....	3,349,085	
1903.....		5,650,000
	\$14,111,296	\$6,429,639
	6,429,639	
Net increase, 7 years..	\$ 7,681,657	
Average per year.....	1,097,379	
Average of 18 years, 1878-		
1896.....	6,563,075	

For the current year we do not anticipate any increase of the public debt. Last year we added \$3,349,085 to our debt, which was considerably less than I expected. In the statement I presented a year ago, I anticipated a considerable increase of our public debt as we had large capital expenditures going on then, the outcome of which it was difficult to closely estimate. But happily the outlay on capital account proved less than my estimate and the revenue very much greater. The result was that we added to our public debt at the close of the year only the moderate sum of \$3,349,085.93, which was considerably less than I expected. At the close of the present year, after providing for all our charges against income and our expenditures on capital account, which will be \$10,000,000 or a little more, I anticipate that we shall not only add nothing to the public debt, but make a reduction of that debt to the amount of \$5,650,000. If my expectation as to the favourable outcome of the present year be realized—and I think we may count with considerable safety on its being realized in

the main—we shall find that in the course of seven years, we shall have increased the public debt by \$7,681,657, being an average of a little over \$1,000,000 per annum, or to be exact, \$1,097,379 under the present administration. And against this, we have the fact that our predecessors increased our public debt during the eighteen years of their administration from 1878 to 1896 by \$6,563,075 per year.

That, Sir, is a statement made to the close of the current year, when we shall have had seven years of financial administration by this government, showing that the average increase of the public debt during these seven years was but \$1,097,379 per year. But making a statement for four years only, I find this result. That in the course of the last four years, including the present, we shall have increased our public debt \$6,335,282.73 in the years 1900-01 and 1902 and shall have increased it by the amount of \$6,429,639.71 in 1900 and 1903. The figures are as follows:

NET DEBT—STATEMENT FOR FOUR YEARS.

	Increase.	Decrease.
1900.....		\$ 779,639 71
1901.....	\$2,986,196 80	
1902.....	3,349,085 93	
1903.....		5,650,000 00
	<u>\$6,335,282 73</u>	<u>\$6,429,639 71</u>

So that taking these four years, during which we have certainly made liberal appropriations for the public service, during which great public works have been carried on, and during which our hon. friends opposite have even charged us occasionally with extravagance, we shall have paid our expenditure on consolidated account, on capital account, on special account, and every other account, and will not have added one cent to the public debt of Canada.

Mr. BORDEN (Halifax). I did not catch the hon. gentleman's figures for the estimated reduction of the public debt.

The MINISTER OF FINANCE. \$5,650,000. Now with regard to reduction of public debt, it may be well to notice that it is very seldom the lot of a Finance Minister of Canada to be able to speak of a reduction of the public debt. Some hon. gentlemen, who may not have followed this matter closely, may be surprised to learn that prior

to the advent of this government, only twice in the history of the Dominion of Canada was there a reduction of the public debt. Once in our time, prior to the present, have we had a reduction of the public debt, amounting to upwards of \$700,000, and now, in the present year, we have this large reduction to which I have referred. While presenting these figures, let me frankly say that I do not think any Minister of Finance of this country should be expected to show often a reduction of the public debt. In a new country like Canada with a great many public works requiring to be assisted, with many demands on the treasury, it would not be surprising that each year we would not only be obliged to spend our ordinary revenue but to incur some debt in order to carry on our great public works.

That, Sir, has been the experience of Canada during the greater part of its history. Where we have had surpluses—and we have had many of them—almost invariably they have been absorbed by the expenditures on capital account. Only four times in the history of Canada have there been reductions in the public debt. That is to say, there have been only four years in which the Dominion was able to provide for all its expenditures and have a balance wherewith to reduce the debt. Twice in the time of our predecessors these reductions were made, and twice in our time. And, if there is anything in making the calculation, I may say that the reductions in the seven years of our administration, were nearly twice as great as the reductions made by our predecessors during the whole of their time. However, while I call attention to these reductions and regard them as a very gratifying feature of the financial statement, I do not hesitate to say that, as a rule, a Minister of Finance will not be able to show reductions of the public debt, and it will be no discredit to him if he is not able to do so.

I have prepared a statement of the public debt per capita, this, of course being the fairest way to make the comparison. It is not to be supposed that the public debt will remain at a standstill; but, as the country grows in population it is able to bear an increased amount of debt without increasing the weight of the burden upon the people. Beginning with the year 1891, we find that the debt per capita has been as follows:—



## NET DEBT PER CAPITA.

Year.	Population.	Net Debt.	Per Capita.
1891..	4,833,239	\$237,809,030	\$49.20
1892..	4,877,748	241,131,434	49.43
1893..	4,923,318	241,681,039	49.08
1894..	4,971,536	246,183,029	49.52
1895..	5,021,005	253,074,927	50.40
1896..	5,072,341	258,497,432	50.96
1897..	5,127,220	261,538,596	51.01
1898..	5,184,373	263,956,398	50.91
1899..	5,243,950	266,273,446	50.78
1900..	5,306,113	265,493,806	50.04
1901..	5,371,051	268,480,003	49.98
1902..	5,438,915	271,829,089	49.97
1903..	5,509,000	266,170,089	48.31

The statement I have just given might be made even more favourable. In the estimates of population I have followed the method of calculation usually followed in the census office, by which they add a certain percentage from year to year during the interval between the times of census taking. But I have no doubt, taking into account the large increases in population during the current year, that a correct statement if one could be made, would show a much larger population for the present year than in the estimate I have made. It will be seen that I estimate the population for the present year at 5,509,000 and the net debt at \$48.31 per head, as against \$50.96 per head, the rate when this government came into office.

On the question of surpluses, which is always an interesting question, I have here a statement which gives the surplus or deficit for each year from the year 1897 up to the present time. It will be remembered that, while this government was in power during 1896-7 it had to carry on the financial affairs of the country under conditions which in the main, came to it by way of inheritance from its predecessors. It was not in a position to control the expenditures wholly; in fact the estimates for that year were prepared by my predecessor, and, coming into office when there was no time to revise them, we were glad to accept them, in the main, and act upon them for that year. It will be seen that, for that year, there was a deficit, but that for every year since there has been a surplus:—

## SURPLUSES—1897 TO 1903.

	Surplus.	Deficit.
1896-7..		\$519,981 44
1897-8..	\$1,722,712 33	
1898-9..	4,837,749 00	
1899-1900 ..	8,054,714 51	
1900-1..	5,648,333 29	
1901-2..	7,291,398 06	
1902-3 (estimated) ..	13,350,000 00	
Total for 7 years..	\$40,904,907 19	\$519,981 44
	519,981 44	
Total net surplus for 7 years..	\$40,384,925 75	
Average, \$5,769,275.10.		
Average for 13 years, 1878-1896, \$544,539.61.		

The general condition of our country is so prosperous that, it is not necessary to quote any statistics for the purpose of showing that it is so. The figures I am about to give are not quoted for the purpose of proving prosperity which is apparent to all, but because the Budget Speech is a sort of financial library in which you can file a few documents of this character and which will be found useful and interesting for future reference. First, we have a statement of the deposits of the people in the chartered banks of the country. I give the figures for five year periods:—

## DEPOSITS BY THE PEOPLE IN THE CHARTERED BANKS, JUNE 30.

Year.	
1868..	\$ 33,317,879
1870..	54,074,460
1875..	61,094,860
1880..	76,244,065
1885..	95,030,429
1890..	128,631,455
1895..	182,638,227
1900..	277,256,716
1901..	315,775,429
1902..	344,949,901
1903, Feb. 28..	366,682,122

A statement of the discount of the chartered banks is a measure of the business of the country. These figures for five year periods are as follows:—

## DISCOUNTS—CHARTERED BANKS, JUNE 30.

Year.	Discounts.
1868..	\$ 51,966,120
1870..	67,107,167
1875..	136,771,679
1880..	111,956,858
1885..	162,847,002
1890..	195,987,402
1895..	224,507,301
1900..	316,634,620
1901..	318,240,549
1902..	348,690,611
Feb. 28, 1903 ..	382,225,338

The total trade also is one of the means whereby we measure the prosperity of the country. I have here a statement of the total exports and imports :-

## TOTAL TRADE.

Year.	
1868..	\$131,027,532
1870..	148,387,829
1875..	200,957,262
1880..	174,401,205
1885..	198,179,847
1890..	218,607,390
1895..	224,420,485
1900..	381,517,236
1901..	386,903,157
1902..	423,910,441

These figures include total exports and total imports which in turn include coin and bullion.

My next statement is one showing the imports for consumption and the exports :-

STATEMENT OF MERCHANDISE IMPORTED  
(FOR HOME CONSUMPTION) AND  
EXPORTED.

Year.	Imports.	Exports.
1868..	\$ 67,090,159	\$ 49,739,998
1870..	66,902,074	62,608,814
1875..	117,408,568	74,628,212
1880..	69,900,542	83,336,197
1885..	99,755,775	84,263,164
1890..	111,682,573	91,387,295
1895..	100,675,391	106,013,394
1900..	172,506,378	177,776,044
1901..	177,700,694	194,509,143
1902..	196,480,190	209,970,864.

These figures include merchandise only, (coin and bullion excluded). Equally satisfactory is a statement of our exports confined to home products.

## TOTAL EXPORTS—HOME PRODUCE.

Year.	
1868....	\$ 45,543,177
1870....	56,081,192
1875....	67,490,393
1880....	70,096,191
1885....	76,183,518
1890....	82,335,514
1895....	99,528,351
1900....	163,510,790
1901....	177,431,386
1902....	196,019,763

In connection with the statement of surpluses which I have read, I think, having reference to some criticism which occasionally appears in the press, that I should offer a further observation. It ought not to be necessary to make any explanation concerning these surpluses, but sometimes we

see in the public press, and even in journals from which I would expect greater intelligence and greater fairness, the statement that the surpluses which the government have been able to set forth, are unreal, because they do not cover all classes of expenditures. Now, it ought to be well understood by hon. gentleman, and it will be understood by the older members of the House, that the distinction which is observed in our public accounts between capital expenditure and expenditure chargeable to income, is not a discovery which I have made. It is not an invention of mine. It has existed in the public accounts from the beginning, it has properly existed; and I hope it will be clearly understood that in that respect there is no change. The public accounts in this respect are kept as they always have been kept. There is a proper distinction. Sometimes it may be difficult to draw the line, but as respects the greater part of our expenditures on capital account there is a properly drawn line between capital expenditures and expenditures chargeable to income. However that may be, we have simply carried on the same method of keeping accounts that our predecessors have followed.

An hon. MEMBER. Except the bounty on iron.

The MINISTER OF FINANCE. I am glad my hon. friend has reminded me of that, but I would have spoken of it in any case. If you look at the statements which appeared under the head of capital and the statements to-day, you will find that the only new item of any considerable amount is that respecting the bounty on iron. Now, the former method of dealing with that bounty was one with which we need not fear a comparison. What was the former method of keeping accounts with regard to the bounties on iron? We had the moneys deducted from the customs revenues, they were classed as a refund of moneys. Considering that not a penny went to the treasury, it would be difficult to understand how they could be properly classed as a refund. There never was any money paid into the treasury in this connection; but year after year the payment of these bounties, for some reason that I have never

been able to understand, was made out of the Customs Department and stated as a deduction from revenue. I think any business man on either side of the House will acknowledge with me that that was not a proper way of keeping the accounts. You do not find anything about the bounties on iron in the public accounts, as a rule. If you looked into the Auditor General's Report, you might discover that in his analysis of the work of the Customs Department account was taken of the fact that certain moneys were paid as a refund, or something of that kind, for bounties on iron. Well, so long as the sums paid for bounties were not very large, this perhaps was not a very serious matter, though, whether the sum was large or small, it was not a sound method of bookkeeping. But when it came to our knowledge that under this bounty arrangement we were likely to pay large sums of money running up perhaps to millions of dollars a year, then it became necessary that we should treat the matter properly and put it in some other place in the public accounts, and so we began to treat it in the same way as we treat a railway subsidy. Therefore we have charged these bounties on iron and steel to what is called a special expenditure, which is practically a capital account. I think that is justified. But I want to say, Mr. Speaker, that whether that is justified or not, does not affect my argument. As regards the total of the surpluses the bounty on iron and steel is a very small item, and if you strike out of the account the money which we have paid in the shape of bounties on iron and steel, and if you charge that to some other service and deduct it from our surplus, you will still have substantially the same record as that which I present to you, a record of a series of handsome surpluses to the credit of the Liberal government.

Now, Mr. Speaker, there are persons who sometimes wonder why, in a year, in which we say that finances are very prosperous, we are still borrowing money. There are people who cannot understand how that should be necessary. But even in private enterprises there are occasions when the

most prosperous business requires loans to meet immediate obligations. So it is with the nation. There are times when the inflow of revenue into the treasury is greater than the outgo of expenditure, and then we accumulate a considerable balance. But there are other times when the revenue, though still flourishing in comparison with the revenue of corresponding periods, is insufficient to meet the demands. At such times temporary loans are resorted to for short periods, and in that way we have had some temporary loans during the past year. On the 1st of January last, we had outstanding treasury bills amounting to £1,250,000 sterling. These bills were renewed in London for a term of six months at  $3\frac{1}{2}$  per cent interest. That is a somewhat higher rate than in former times we had to pay. But as every business man is aware, the conditions of the money market for some time past have been very stringent, and having regard to these conditions, the rate was a fair one.

During the last month or two our revenue has increased so rapidly that we have found ourselves able to redeem some of these treasury bills in advance of their maturity. At the time we raised the money, of course we could not have foreseen the increased revenues that have come in. But we have been able to redeem some of the treasury bills already, so that we have reduced the amount of the treasury bills outstanding to £950,000. These will mature on the 1st of July, and our expectation is that we shall be able to pay off the balance of these on the 1st of July out of our accumulating revenue.

I come now to the question of loans which are maturing. If we had only to consider the question of current expenditure we would not require to go upon the London money market for some considerable period, except for occasional temporary loans in the way I have spoken of. We have to consider, however, not only the question of our current expenditures but also the question of outstanding loans, issued many years ago, which will from this time forward begin to mature. I have a statement of those maturing soon, which I present to the House.

## LOANS MATURING SOON.

Date of Maturity.	Rate of Interest.	Amount.	Sinking Fund.	Balance.
<i>In London.</i>				
	Per cent.	\$	\$	\$
Oct. 1, 1903.....	5	500,000	None.	500,000
" 1, 1903.....	4	1,500,000	969,500	530,500
April 1, 1904.....	4	300,000	205,000	95,000
May 1, 1904.....	4	4,000,000	1,024,500	2,975,500
		6,300,000	2,199,000	4,101,000
<i>In Canada.</i>				
Nov. 1, 1903.....	4	\$ 2,852,000	\$ None.	\$ 2,852,000

As the House will see, one of these loans, which will mature on 1st November next, is a domestic loan, amounting to \$2,852,000, which was issued in 1883 and bears interest at 4 per cent. My expectation is that we shall be able to refund this loan in Canada at a saving of one-half per cent interest. A few years ago we looked forward to more favourable terms than this. But for several years the condition of the money market has been one of considerable stringency, and the present indications are by no means favourable to cheap money at an early day. Under these circumstances I have thought it well to provide for this loan by issuing a domestic loan for a short period. The proposal is that the holders of this loan shall receive new stock, running only for ten years at 3½ per cent. I have no reason to doubt but that this will be regarded as a fair offer, and that the holders, as a rule, will be glad to renew the loan on these terms. If in any case they are not, I am satisfied that we can easily place the new stock in other quarters at the rate mentioned. I have spoken of a domestic loan which will mature in November in Canada. On the 1st of October we have two loans maturing in London, one a five per cent loan for £500,000 sterling against which there is no sinking fund, therefore, the whole amount of it will have to be provided for. The other is a four per cent loan of £1,500,000 against which we will have a sinking fund of about £1,000,000 leaving a balance of about £500,000 to be provided for. I feel hopeful that by the

1st of October we can, out of our revenues, provide for the five per cent loan of £500,000, and for such portion of the four per cent loan as may then be outstanding. But, if we should not be able to provide for the whole of it we can cover the balance by a small issue of treasury bills which will carry the transaction over into the next year, when we shall have to take into consideration other obligations arising, and at which time we hope for a more favourable state of the money market.

From this time forth, for some years, we shall receive considerable sums from a new source, money which we shall receive virtually as trustees, but which, will, for the time being, be available for our own purposes. I refer to sums which may be derived from the sale of lands by the Canadian Pacific Railway. The first mortgage upon these lands, given in 1881 to secure an issue of \$25,000,000 of bonds, has been practically all paid off. The moneys hereafter realized from the sale of Canadian Pacific Railway lands become available for the payment of an issue of \$15,000,000 of 3½ per cent fifty year bonds issued in 1888. The government guaranteed the interest on these bonds and the Minister of Finance became one of the trustees under the mortgage. It is provided that all moneys realized from the sale of these lands, after the payment of the first mortgage, shall be paid in to the Dominion government. The government allow 3½ per cent interest upon the money in accordance with an arrangement made by our predecessors, which is the rate

which the company have to pay to the bondholders. So soon as the fund accumulated in this way is equal to the principal sum, the company shall be released from all liabilities. The government, with the money in hand to protect itself, will become liable to the bondholders for both principal and interest. We have not yet received any money under this mortgage, the transactions connected with the first mortgage having only recently been closed. But in view of the great demand for lands in the Northwest there is every probability that we shall receive a large sum from this source in the early future. It is difficult to make an estimate of the amount. Probably \$2,000,000 per annum will not be an excessive estimate. As I have already pointed out, it is not a case in which the Dominion profits by the transaction. We shall have to repay ultimately to the bondholders all money which we shall so receive. But in the meantime the government will have the use of the money at the rate of 3½ per cent per annum and to the extent of sums coming into the treasury in this way we shall be relieved from the need of borrowing.

A very interesting feature in connection with the enormous development of business in Canada, and a feature which must have attracted the attention of some of my hon. friends opposite who are interested in large financial concerns, is that this great development of business has been carried on in the Dominion with a comparatively small increase of banking capital. When we look back we find that in 1895 the paid up capital of the chartered banks of Canada was \$61,685,329, and we find that the increases from year to year have been as follows:

CHARTERED BANKS—PAID UP CAPITAL.

31st January, 1895.. . . .	\$61,685,329
" " 1896.. . . .	62,196,496
" " 1897.. . . .	61,756,813
" " 1898.. . . .	62,292,614
" " 1899.. . . .	63,284,043
" " 1900.. . . .	63,734,845
" " 1901.. . . .	66,436,767
" " 1902.. . . .	67,621,011
" " 1903.. . . .	72,856,125

It will be observed that for a long period there was practically little or no change in the volume of bank capital, but while that was the fact, trade and commerce continued to expand in a remarkable degree and the banks were able to handle all these

transactions. The explanation, of course, is to be found in the fact that owing to the increased wealth of the people, the bank deposits have been greatly increased, and that in this way banks have been provided with ample funds for carrying on the increased business of the country. For a long time this worked out satisfactorily and there has been no difficulty in supplying the necessary amount of bank circulation to carry on business, but during the past year, owing to the great development in business, some of the banks began to be anxious as to whether or not they would be able to supply the necessary amount of bank circulation. The law provides that a bank is permitted to issue its own notes up to an amount equal to its paid up capital. Most of the banks have, in times past, found themselves with ample note circulation for their business. But during the past year, with the great increase in the trade of the country, there began to be a fear that the banks' resources in this respect might be insufficient. Several of the banks at all times had a safe margin to work on, but many of the others found their circulation running close up to the limit of their paid up capital. Several schemes have been suggested with a view to increasing the power of the banks to issue notes. We have not felt justified in encouraging any departure from the principle now recognized in the Bank Act, namely, that paid up capital shall be the only basis for the bank circulation, and although, at one stage, one or two of the bankers were inclined to take another view, I think there is a general agreement that this is the soundest and safest rule. A number of banks, realizing that they should have, not only a sufficient circulation for immediate requirements, but also a safe margin to meet the development of business, have taken steps to increase their capital, and, of course, with the increase of actual paid up capital there comes an increase of circulating power. In this way, it is fully expected that during the present year, even with the great development of trade which is going on, the banks will be in a position to provide amply for that part of the currency system of the Dominion which depends upon them.

While the banks of the country furnish a considerable portion of the notes for cir-

culation, another portion of the requirements of the country is met by the issue of Dominion government notes. There has been no change in the law respecting the issue of these notes for quite a long period. Under the Act as it now stands the government are authorized to issue \$20,000,000 of Dominion notes with a reserve of 25 per cent which reserve must take the form of either gold or debentures guaranteed by the imperial government, which are practically the same as gold. For all notes issued in excess of \$20,000,000, the government hold dollar for dollar in gold. It will thus be seen that under this law the government are permitted to issue \$15,000,000 of notes unsecured; that is to say \$20,000,000 being allowed on the basis of 25 per cent reserve, the \$5,000,000 of the issue was protected by a deposit of gold, and \$15,000,000 were issued upon the general credit of the country. I think it will be generally admitted that if Canada at that time was justified in issuing \$15,000,000 of notes on the general credit of the country, the great advance that has taken place in the revenue and wealth of the country will justify the issue of a larger sum to-day. I propose to ask parliament to amend the Currency Act by providing that instead of \$20,000,000 to be issued, with a reserve of 25 per cent, the amount shall be raised to \$30,000,000, the reserve still to be, of course, 25 per cent. For all issues over \$30,000,000—and our circulation is already considerably above that figure—we shall continue to hold in gold dollar for dollar. The effect of the proposed change will be, that, whereas, under the present Act, there are \$15,000,000 of notes unsecured and resting upon the general credit of the country, under the new proposal there may be \$22,500,000 issued under similar conditions, while \$7,500,000 will remain in the treasury in the form of gold or guaranteed debentures, to form the usual 25 per cent of reserve on the increased amount. This step, will, I am sure, readily commend itself to the House. But, I may add that I have only taken it after very careful consideration and consultation with the most conservative financial men, who agree with me as to the wisdom of the proposal.

If there is no demand for these notes, of course, they cannot be issued, but it is well that we should have the power to issue these notes, so that between this additional power

of issue and the increased banking capital we shall have a larger margin for circulation and relieve the anxiety felt some months ago as to the probability of there not being a sufficiency of circulation. But, while with one hand we propose to allow ourselves that greater liberty which will give us practically \$7,500,000 of an increased power of issue, if the public desire it, while with one hand we propose enlarging our powers in that direction, with the other hand we propose to make an appropriation of the money.

While under the proposed arrangement respecting our currency, we shall receive authority for an additional issue of Dominion notes to the amount of seven and a half million dollars, I do not propose to utilize this additional power for the ordinary expenditures of the country. I have another proposal to make under which nearly the whole sum will be applied to the creation of another reserve against another class of Dominion liability. We have at present deposits in the government Savings Bank amounting to about fifty-nine millions of dollars. We have never had any reserve to protect these deposits. The whole amount now rests as in the past on the general credit of the country, and no one has ever doubted that the Dominion is well able to assume responsibility for it. Nevertheless, as a matter of sound finance, now that these deposits have grown to such a very large sum, I think it well that we should take some steps for the creation of a reserve fund; so that if, at any time, there should be a special demand upon us for these moneys, we should have a reasonable sum available immediately to respond to the demand. I therefore propose to amend the Savings Bank Act by providing that the Dominion shall at all times hold a reserve of gold equal to ten per cent of the total amount of the deposits. This reserve, applied to about sixty millions of dollars, will amount to six millions, so that of the seven and a half millions of dollars for which we ask increased authority under the Currency Act, six millions will be at once applied, not to the general expenditure of the country, but to the creation of this new, but, as we think, necessary reserve. The object therefore of the change is not to give the government an additional loan but we think that in this way we may make

a readjustment which will commend itself to all experienced financial men.

Hon. Mr. HAGGART. Will you keep the reserve in cash?

The MINISTER OF FINANCE. The provisions of the Act require that the reserve must be either gold or Canadian debentures bearing the guarantee of the imperial government which is as good as gold, and we will not depart in any way from that. We will simply change the word from 'twenty' to 'thirty' but the character of the reserve will remain the same.

Hon. Mr. HAGGART. I refer to the reserve for the Savings Bank deposits.

The MINISTER OF FINANCE. Oh, yes; practically I think we will have to make it gold because these guaranteed debentures will gradually run out. But if guaranteed debentures are available they are as good as gold, because they are equivalent to British consols. I think it will probably be found necessary to establish the reserve in gold, for I doubt if we can at all times obtain the guaranteed debentures.

Mr. BORDEN (Halifax). Might I ask the hon. gentleman whether the proposition is this: To issue ten millions worth of Dominion notes upon which there will be a reserve of two and a half millions—that is provided the public ask for it—and if the public do ask for it it is proposed to utilize that money in the creation of a reserve of ten per cent upon the fifty-nine millions of money which has been deposited in the savings banks?

The MINISTER OF FINANCE. Yes.

Mr. BORDEN (Halifax). That will merely mean, borrowing from one class of the public to secure another class.

The MINISTER OF FINANCE. Practically yes. It is a readjustment and not an increase; to use a somewhat famous phrase.

Coming now to the question of the tariff, I have two clauses to propose which will affect the tariff in certain directions, and I shall ask for some amendments to the free list. Of these I shall speak presently. With these exceptions—and they are important exceptions as respects the clauses referred to

—we do not propose any change in the schedule rates of dutiable goods. We are not unmindful of the fact that there has been some agitation for a general revision of the tariff, but we think there is nothing in the present circumstances of the country which calls for this, and there are some strong reasons why any extensive changes in the tariff schedules would be inopportune.

Some hon. MEMBERS. Hear, hear.

Mr. HENDERSON. That is a very mild 'hear, hear.'

Some hon. MEMBERS. We will cheer then.

Some other hon. MEMBERS. How does that suit you for a cheer?

The MINISTER OF FINANCE. The country is prosperous; our manufacturing industries have, on the whole, enjoyed, and are enjoying, great prosperity.

Some hon. MEMBERS. Hear, hear.

The MINISTER OF FINANCE. Where there are exceptions to this rule, it must not be hastily assumed that these exceptions are due to tariff causes. There may be some cases in which that is debatable, but I think it will be found that in many cases where complaint is made, if that complaint is well founded, that the causes of difficulty are not to be found wholly in the tariff. Indeed Sir, the manufacturers themselves who have communicated with us, have rather based their claim for changes, not so much upon the present condition of affairs as upon the probability, as they think, that we shall soon have less prosperous times. I think, Sir, that most of the manufacturers to-day are suffering, not from want of orders, but for lack of sufficient hands and factory space to enable them to supply the demand.

Some hon. MEMBERS. Hear, hear.

The MINISTER OF FINANCE. I am far from saying that there are not exceptions to this, but I think it is not too much to say that subject to some possible exceptions, the general condition not only of the country at large, but of the manufacturing interests of Canada in the main, is highly

prosperous. We know that all classes have prospered in Canada of late years, and it is an interesting fact that manufacturers have shared in the largest degree of that prosperity, for they have held their home markets to a large extent; they have all or nearly all been busy, and their shipments to foreign markets have been constantly increasing. Therefore, even from a manufacturers point of view, we think the situation is not so bad. There may be a necessity at some early date to make further tariff changes than those which I now propose, but if so the extent to which these changes should be made and the character of the changes may be in a considerable degree dependent upon the attitude of certain other countries towards Canada; certain countries as to which we are not to-day in a position to say exactly what they may be disposed to do now or in the early future. I suppose it will be generally admitted that while we are anxious to improve our trade relations with the world at large, there are two countries with which we naturally have or would like to have intimate trade relations. The one, it goes without saying, is our mother country; the other is the neighbouring republic, because they are so near to us and so closely identified with us in many things, that we must desire to have close and friendly relations with them.

Now with regard to the trade relations with the mother country. We decided several years ago to grant a preference to the mother country in the markets of Canada. There has been a desire among both parties, among all classes of the people of Canada, that that preference should be reciprocal. We do not differ in that. All will admit that if that could be brought about, it would be a desirable thing for Canada, and we hope for the mother country as well. But we have had different ideas as to the best means of accomplishing this. We have been criticised by hon. gentlemen opposite because we gave a preference to the mother country without demanding something in return. We have thought that our view was the better one. We thought that under the circumstances in which we were then placed that it would not only be useless but harmful to have pressed a demand upon the British government for a return of the preference.

In this, Sir, we were not speaking our own views alone. Members of this government had the opportunity to communicate with able, experienced and influential men in the imperial parliament, and the conclusion we reached, after such communication, was that the time was not favourable for pressing a claim of that character. At the same time we quite realized that these are days in which changes rapidly occur; and in the discussion of the question in this House, we have repeatedly said that it was quite within the bounds of possibility, and even probability, that at no distant day some change might be brought about in the attitude of the British government and the British people on that subject. Hon. gentlemen opposite have frequently endeavoured to assure themselves and others that the imperial authorities were ready and willing to give us a preference. We remember how it was stated that Mr. Chamberlain had practically offered us a preference, and that we had declined to have it. We remember how it was said that the Duke of Devonshire had also practically offered us a preference, and we had refused it. All these things, however, were mere fancies. Mr. Chamberlain made no such offer, and the Duke of Devonshire, when appealed to, flatly denied the views attributed to him. It was quite evident that we had nothing to expect in that way; but a change might come, and it did come sooner than we had reason to expect—not a change, however, which took the form of any preference to the colonies. In the midst of a great war, in a time of financial strain upon the imperial treasury, which still continues, the British government adopted the policy of a tax on breadstuffs. That change on the part of the imperial government produced a new situation of which we have not failed to take advantage. It was one thing to propose, as our opponents did in 1897, that the British government should tax the food of their people for our benefit, in order to grant an exemption of Canadian goods from the taxation. It was too much to expect that the British taxpayer, in the then state of public opinion, would be willing to adopt the policy of preference. It was a very different thing, however, to propose to the British government, not that they should tax the food of their people for the sake of the colonies, but that they



should take off taxation by granting a preference in favour of colonial products. We have not failed to press these views upon the imperial authorities from time to time, and in various ways. When the duties were imposed, representations were made, but without success. We resolved to carry the question into the colonial conference to be held in London in connection with the coronation; and at that conference this subject occupied a great deal of attention. It will be remembered that in a speech by Mr. Chamberlain at the beginning of the conference, he expressed the opinion that the preference granted by us, while of value as a mark of the good-will of Canada, and much to be appreciated as a matter of sentiment, was nevertheless not of much material value; and he added that if the question of granting a preference in the mother country could be entertained at all, it would have to be by the granting of some further substantial preference on the part of Canada. While we regretted that Mr. Chamberlain took that view, we felt that we should not on that account fail to press our views on the other side. This statement of Mr. Chamberlain is very interesting, however, as an evidence of his attitude on the question. For a long time it was commonly represented by our opponents in this country that Mr. Chamberlain had been making speeches avowing his readiness to grant a preference, and similar claims had been made with respect to the Duke of Devonshire. But what do we find? We find that not only was Mr. Chamberlain never disposed to grant us any preference, but he has now said that before he could consider the question of a mutual preference to be within the realm of practical policy, we in Canada would be obliged to consider whether we would not give a further preference to British goods. It is therefore perfectly clear that the impression which some hon. gentlemen opposite have had for years regarding Mr. Chamberlain's attitude on this question is an entire delusion. Perhaps in some respects it is to be regretted that the full proceedings of the conference were not made public. However, there were good reasons for the course that was pursued. It was understood from the beginning that the proceedings were to be confidential, and some of the gentlemen present, relying on that, discussed matters with

the freedom of confidential negotiations. To have published all the speeches after that understanding would of course have been a breach of faith. In a conference of that character there are always arising not only national but international questions, and it would not be proper for matters of that kind to be made public unless it were so understood from the beginning. There is no room, however, for any misunderstanding as to what happened on the question of preferential trade, or as to the position taken by the Canadian government. Not only was the subject discussed again and again in the conference, but we had frequent opportunities of discussing it with the British ministers individually, and particularly with Mr. Chamberlain and Mr. Gerald Balfour, the president of the Board of Trade. We contended, as appears in the blue-book containing the proceedings of the conference, that the preference was not only of sentimental value but also of great material value to the British trader and manufacturer. While we contended that the preference already granted was of more value to Great Britain than the British officials had been disposed to admit, we told them that if the imperial government were prepared to adopt the preferential policy and give our products exemption from the duties now imposed or hereafter to be imposed on foreign goods, we would be prepared to grant some further preference, subject to certain conditions which were clearly laid down. We frankly stated that we could not undertake to give that further preference in a manner which would operate to the disadvantage of our own industries. As between the British manufacturer and the Canadian manufacturer, we thought we had gone as far in the way of reduction of duties as we could. But we pointed out that Canada consumed a large quantity of goods imported from foreign countries; and in return for the preference which we sought for Canada, we were prepared to so rearrange our tariff as to give Great Britain a further preference, not over the Canadian manufacturer, but over the foreign competitor.

Some hon. MEMBERS. Hear, hear.

The MINISTER OF FINANCE. The views of the Canadian government on that question are referred to in the memorandum

submitted to the conference by Mr. Gerald Balfour, president of the British Board of Trade, which appears on page 35 of the conference report, and reads as follows :

#### PREFERENTIAL TRADE.

Memorandum by Mr. Gerald Balfour, President British Board of Trade.

As a result of the communications which have taken place, it is understood that the representatives of the colonies hereinafter mentioned are prepared to recommend to their respective parliaments preferential treatment of British goods on the following lines :—

#### CANADA.

The existing preference of 33½ per cent, and on additional preference on lists of selected articles—

- (a) by further reducing the duties in favour of the United Kingdom ;
- (b) by raising the duties against foreign imports ;
- (c) by imposing duties on certain foreign imports now on the free list.

The rest of the memo. refers to Australia, New Zealand and the Cape, and I need not detain the House by reading it.

Now, the result of the whole discussion, so far as the record shows, is a resolution found on page thirty-six :—

The general resolution that was finally adopted as covering the principle underlying the several proposals comprised in Mr. Balfour's memorandum, was as follows :—

1. That this conference recognizes that the principle of preferential trade between the United Kingdom and His Majesty's dominions beyond the seas would stimulate and facilitate mutual commercial intercourse, and would by promoting the development of the resources and industries of the several parts, strengthen the empire.

2. That this conference recognizes that, in the present circumstances of the colonies, it is not practicable to adopt a general system of free trade as between the mother country and the British dominions beyond the seas.

3. That with a view, however, to promoting the increase of trade within the empire, it is desirable that those colonies which have not already adopted such a policy should, as far as their circumstances permit, give substantial preferential treatment to the products and manufactures of the United Kingdom.

4. That the Prime Ministers of the colonies respectfully urge on His Majesty's government the expediency of granting in the United Kingdom preferential treatment to the products and manufactures of the colonies, either by exemption from or reduction of duties now or hereafter imposed.

5. That the Prime Ministers present at the conference undertake to submit to their respective governments at the earliest opportunity the principle of the resolution, and to request

them to take such measures as may be necessary to give effect to it.

It will be observed that Mr. Balfour's memo. speaks of an increased preference to be granted to Great Britain by Canada, but does not make any reference to any preference to be granted by Great Britain to Canada. That, however, means nothing, because the reciprocal character of the arrangement was well understood and so expressed in the other documents. The conclusion of the whole discussion was that this additional preference which we were debating was only to be granted to the mother country for and in consideration of the preference we had asked for the products of Canada in the markets of Great Britain. That is made abundantly clear in the memo. of the Canadian ministers, which is filed on the subject. That memo. is a little lengthy, yet I must ask the House to bear with me while I read it, because although it was published some months ago, its nature may be forgotten. As it is a statement not only of our views, but of the views which were expressed by Mr. Chamberlain on behalf of the British government, and was published with his authority, I think we shall do well to give its terms our consideration :—

#### MEMORANDUM OF CANADIAN MINISTERS AT COLONIAL CONFERENCE.

This subject has frequently engaged the attention of the conference. At an early stage Mr. Chamberlain suggested that the question could most conveniently be considered by the representatives of each colony placing themselves in communication with the President of the Board of Trade, Mr. Gerald Balfour, and the officials of that department. Accordingly the Canadian ministers had several protracted interviews with these gentlemen, and discussed the whole subject very fully. Opportunity was also taken to present the Canadian view to Mr. Chamberlain. Now that the conference is drawing to a close, it is desirable that the course of the discussion, and the conclusions reached by the Canadian ministers, should be outlined and placed on record.

From the beginning of the proceedings the Canadian ministers have claimed that in consideration of the substantial preference given by Canada for some years to the products of the mother country, Canadian food products should be exempted in the United Kingdom from the duties recently imposed. Representations to this effect previously made through the High Commissioner for Canada were supplemented by the ministers, both in writing and in the personal interviews with the imperial ministers.

Mr. Chamberlain, on behalf of the imperial government, was unable to agree to the proposals of the Canadian ministers. He represented that the imperial government, while highly appreciating the good feeling manifested by Canada in the granting of preferential treatment, did not think the material results to the trade of the United Kingdom were as great as the Canadian ministers claimed. He further said that the change desired by Canada would be an important departure from the established fiscal policy of the Kingdom, and that if the proposals could be entertained at all, as to which he was not prepared to commit himself, it would be necessary for Canada to offer some material tariff concessions beyond those which she had already voluntarily given.

The Canadian ministers, therefore, submitted a memorandum on the subject of the advantages already received by Great Britain from the Canadian preferential tariff, with a view to showing that these were of much value, and entitled to weight in the consideration of the whole subject.

While urging that the benefits of the preference were such as to entitle Canada to the desired exemption from the duties on food products in the United Kingdom, the Canadian ministers stated that within certain limitations they were prepared to consider the request of Mr. Chamberlain for further concessions in return for the desired preference in the markets of the United Kingdom. While it was not deemed necessary to enter into questions as to the wisdom or unwisdom of the policy adopted by all governments in Canada, of raising the revenues chiefly from customs duties, the Canadian ministers pointed out that under that policy large industries had grown up which had to be considered in connection with proposed tariff changes. Large reduction of duties had been made in recent years, especially on British imports. It was feared that in some lines of importance further reductions might create a disturbance of trade which would not be conducive to the welfare of the country. But the Canadian ministers pointed out that the Canadian tariff was by no means prohibitive, that large quantities of goods were imported, and that a great proportion of these came from foreign countries. In any lines in which it appeared that the goods would be manufactured in Great Britain it might be possible to so readjust some duties as to give an additional advantage to the British manufacturer, and thus turn over to him a volume of trade which at present is held by the manufacturers of foreign countries.

The Canadian ministers stated if they could be assured that the imperial government would accept the principle of preferential trade generally, and particularly grant to the food products of Canada in the United Kingdom exemption from duties now levied, or hereinafter imposed, they, the Canadian ministers, would be prepared to go further into the subject, and endeavour to give to the British manufacturer some increased advantage over his foreign competitors in the markets of Canada.

Meanwhile the Canadian ministers determined to present to the conference a resolution affirming the principle of preferential trade, and the desirability of its adoption by the colonies generally, and also expressing the opinion of the Prime Ministers of the colonies that His Majesty's government should reciprocate by granting preferential terms to the products of the colonies, in the markets of the mother country. The Canadian ministers desired to have it understood that they took this course with the strong hope and expectation that the principle of preferential trade would be more widely accepted by the colonies, and that the mother country would at an early day apply the same principle by exempting the products of the colonies from customs duties. If, after using every effort to bring about such a readjustment of the fiscal policy of the empire, the Canadian government should find that the principle of preferential trade is not acceptable to the colonies generally, or the mother country, then Canada should be free to take such action as might be deemed necessary in the presence of such conditions.

London, August 11, 1902.

Surprise has been expressed in some quarters—I have heard it expressed, I think, in this House—that the colonial conference did not produce some more definite result. I think that that is the result of some misapprehension. The colonial conference was not a legislative body; it was not what could be called an executive body; it was at the best merely an advisory body. All it could do was to consider the various subjects brought before it, and to express the conclusions which might be reached by the gentlemen comprising it, leaving to all the governments concerned the duty of taking up the matter later on if it should be deemed necessary. That is exactly the position in which this matter of preferential trade stands to-day. The end is not yet. We are not prepared to say at this moment what may be the answer of the British government with regard to the view we have placed before it.

We are aware, Sir, that Mr. Chamberlain, the able Colonial Secretary, whose interest and support we would naturally desire and hope to obtain, has been for some months absent in South Africa, where he has rendered very valuable service to the empire. While we are glad that he was there to render that service in the pacification of South Africa, his absence has, perhaps, to some extent, been a loss to us, inasmuch as, had he been in London during these six months, we might have had his valuable

help in the consideration of this matter. The budget speech of the new Chancellor of the Exchequer, Mr. Ritchie, has not yet been delivered. We are so close to it, that it may be too much to expect that this subject would be dealt with in it. But, however that may be, this much at least may be said—that, as we were invited by Mr. Chamberlain to express our views on this subject, as he took an interest in the matter, and as there are others in the imperial parliament who take an interest in it, some of whom are prepared to express themselves more freely than Mr. Chamberlain himself was prepared to do, the least that the British authorities can expect is that we shall allow a reasonable time to elapse before anything further is done. But if, after further consideration, they come to the conclusion that our request is not a reasonable one, if, owing to their adherence to certain views they cannot grant us the preference, we shall be free to take our own course. Whether, in such a case it would be wise, in the interests of Canada, to modify or change the preferential tariff, would be a question to be considered. But, putting aside other considerations, if the British government and people do not show any appreciation of the value of the preference, then, so far as the British government and people are concerned, they cannot complain if we see fit to modify or change that preferential tariff. Of course, Sir, there would still remain the more important consideration, how far, if at all, that tariff could be changed with due regard to the interest of the masses of the Canadian people.

Next to Great Britain, the country with which, in the past, we have been accustomed to say we desire to deal, is the United States. I suppose it is not too much to say that, for some years, our friends across the border have not been too well disposed towards the admission of Canadian products into their markets. While from one point of view, we have been disposed to regret their attitude, there are other considerations which would dispose us to modify very much any expressions of dissatisfaction. When the people of Canada discovered, after frequent efforts, and after ample time given for consideration, that there was a strong hostility on the part of the United States authorities to granting liberal trade arrange-

ments, they ceased to grumble about the matter but, like sensible people, made up their minds to seek for markets elsewhere. And they sought and found them. I think that the proposition that these peoples, living side by side, should enjoy a greater freedom of reciprocal trade, is as sound to-day as it ever was. But it is the simple truth to say that we no longer feel the need of reciprocity as keenly as we once did. There will be no disposition, I am sure, on our part to clamour for reciprocity with the United States. But there can be no doubt that while, in the past, the tendency of the Americans generally have been adverse to reciprocity, there have always been in the United States a number of very able and thoughtful men who have been well disposed toward better trade relations. I think that that class of people is now increasing and that there is a manifest growth of public opinion in favour of better trade relations between the United States and Canada. That growth of opinion in favour of reciprocity has been manifested in several ways, one of them being an approach on the part of an authorized representative of the United States government to the government of Canada, that the Joint High Commission, which met several years ago, first at Quebec and afterwards at Washington, shall be again convened. The fact that such an approach has been made is well known, of course, for it has been announced in the public press. I thought that, perhaps, the House would desire to know exactly how the matter stands, and so I asked the Prime Minister to give me the correspondence which, if the House does not object to receiving it in this manner, I will read. The first letter from Senator Fairbanks to the Prime Minister is as follows:

United States Senate,  
Washington, D.C., February 13, 1903.

My dear Sir Wilfrid,—The matter between the boundary between Alaska and Canada having been transferred to a special tribunal by our respective governments, I presume that no obstacle remains to the reassembling of the Joint High Commission. I write, therefore, to inquire when it will be agreeable to you to have it reconvene. Any date after the middle of next month will suit the convenience of the commissioners of the United States.

The progress we had made in the consideration of the subjects of the protocol at the date

of our adjournment gives warrant for the hope that we can determine many if not all of them.

I have the honour to be,

My dear Sir Wilfrid,

Very sincerely yours,

(Sgd.) CHARLES W. FAIRBANKS.

Sir Wilfrid Laurier,  
Ottawa.

To this the Prime Minister replied :

Ottawa, 17th February, 1903.

My dear Senator,—I duly appreciate your thoughtfulness, and I hasten to give you my reply. It is a great satisfaction that, at last, the Alaska boundary is in a fair way to be honourably settled. This makes the course clear for the settlement of the other questions with which the High Commissioner had been entrusted. I am sorry to say that, as far as we are concerned on this side of the line, it would not be possible to reassemble the commission before the end of next summer. The session of congress will close on the 4th of March, but our own session will not commence before the 12th of the same month, and it is expected to last at least four months, and as three members of the commission on the Canadian side are also members of our parliament, it is a fatal objection to the early summoning of it.

Moreover, I think it would be unadvisable to have the commission to meet officially, unless we are pretty sure in advance of being able to come to some conclusion on some important points. If you will permit me a suggestion; as soon as our parliament has been prorogued, I will take an opportunity of asking you for a private interview, where we could survey the ground again and fix a date for the commission to meet again.

Believe me, my dear Senator,

Yours very sincerely,

(Sgd.) WILFRID LAURIER.

The Hon. Senator Fairbanks,  
Washington, D.C.

The next communication from Senator Fairbanks was as follows :

Washington, D.C., March 4, 1903.

My dear Sir Wilfrid,—I observe that the next session of your parliament is near at hand and that it will not be prorogued early enough to enable us to reconvene the Joint High Commission before the close of the summer.

It is quite well enough that we should arrange for a private interview, after your parliament is prorogued, and, as you suggest, so that we may consider the work before us and agree upon a date for reassembling.

The Senate is called to meet in extra session to-morrow. When it adjourns I shall return to Indianapolis, to remain indefinitely.

I have the honour to remain,

My dear Sir Wilfrid,

Very respectfully yours,

(Sgd.) CHARLES W. FAIRBANKS.

Sir Wilfrid Laurier,  
Ottawa.

As the correspondence indicates, we are not in a position to form any decided opinion as to what may be the outcome of the proposed negotiations. The letter of the Prime Minister to Mr. Fairbanks points out that it is hardly worth while to summon the High Commission if we are to meet with the same difficulties as before; and I am sure I am right in interpreting the Prime Minister's letter to mean that, unless a preliminary discussion gives us some reasonable hope that the outcome of another meeting will be fairly satisfactory, there will be no desire on the part of this government to have the High Commission resume its sittings. But, Sir, while we should assume a dignified and proper attitude, while we could not again approach our American friends with a request for reciprocity, yet, if they are disposed, in the light of recent events, to take a more liberal view of the trade relations between the two countries, and manifest a desire to have the High Commission reconvene for the purpose of trying, in good faith, to bring about a better state of affairs in this respect, it is due to them as well as to our own self-respect that we should meet them in a fair and generous spirit, and join in any reasonable effort to bring about such readjustment of the relations between Canada and the United States as will be honourable to both countries and advantageous to the interests of the people. While not too confident as to the results which may flow, either from our application to the imperial government with regard to preferential trade, or from the possible negotiations with the United States in respect to reciprocity, I think it is not too much to say that in both these matters there is enough to require us to stay our hands and to see what will be done as respects these two important matters before we enter upon any extensive change in our tariff.

Throughout this whole tariff question we have endeavoured to avoid extremes. The policy of the government on the tariff has been a policy of moderation and stability. There are extreme views held on questions of this character. There are extreme protectionist views, there are those who seem to insist that we should make things at home, and who do not always stop to consider what the cost will be. Sometimes, if you endeavour to ascertain from the gentle-

men who advocate these views what are the duties which they wish us to impose in order that we may make these things at home, we discover that they are not very frank; sometimes they are only willing to give us their views on that matter in confidence, and not always then. I think, Sir, I may say that while there is a widespread, a universal sympathy for home industries, while every man in this Dominion ought to be proud of our home industries and desirous of giving a preference to our home manufactured goods, still there is in all these matters a question of cost; and when the manufacturers come to us, as they sometimes do, and desire to have duties which will go up as high as 50 per cent, 60 per cent, and even 70 per cent, on the cost of the goods, then I say there will be many in this country to question whether or not we can afford to carry protection as far as that. There are extremes of that kind to be avoided. Then there are extremes on the other side. There are people who, relying upon the sound principles of free trade, sound enough in their proper place, are disposed to carry them to a point which takes no account of the conditions. They seem to adopt a theory, and they say: You must carry out that theory regardless of what may be done elsewhere: Fix your own tariff policy, and never mind what is done elsewhere. Well, Sir, I am sure we cannot go as far as that. Commercial questions are every day occupying more attention in the field of public affairs. There is great rivalry among the nations; nay, there is commercial war, and in a contest of that character it is not enough to have a good old theory; you must understand the methods whereby your opponent plays the game, so that you may be able, if necessary, to modify your views.

Some hon. MEMBERS. Hear, hear.

Mr. MACLEAN. You are coming to it.

The MINISTER OF FINANCE. I am delighted to have my views endorsed by my hon. friends opposite. It is not only necessary that we should take account of the way our opponent plays the game, but once in a while it may even be necessary, in exceptional circumstances, to meet him with his own tactics. If that doctrine meets with

the approval of my hon. friends opposite I am not disposed to complain. In a country of such vast extent as ours, a country of great territory, it is inevitable that there shall be wide differences of opinion on questions of this character. There will be conflicts of opinion, and there will be conflicts of interests. There will be the extreme view on the one side, and the extreme view on the other. We hold that it is the duty of the government not to yield to these extreme views on either side, but to endeavour to reconcile these views, in the hope that we may bring about a common action which the whole country can accept—a compromise, if you care to call it such. We appeal to the people of the different sections, each one to yield up something in order that we may reach a ground upon which all can act in harmony.

Our manufacturing friends have expressed a desire that the tariff should be kept out of politics. Sir, how are you going to keep the tariff out of politics if some of our manufacturing friends insist upon duties so high that they are sure to antagonize great masses of the people? Especially should we consider these things when we observe what is happening in our great west. The seed that has been sown in the last few years is bearing fruit. When we see immigrants flowing into that country from all parts of the world, we cannot fail to observe the signs of the times. The power of control is passing from the east to the west. Great as is the prosperity of eastern and central Canada, greater still is the prosperity of the vast region lying west of Lake Superior. Ontario and the maritime provinces are losing members, the west is gaining members. That great population in the west is going to be a greater power in the future than it is at present. These western people, producing articles that depend for their value on the open markets of the world, would chafe under a system of high protective duties, and would unquestionably organize against it. Is it not better to meet these people in a spirit of compromise, and ask them to join us in a moderate tariff, rather than, by the adoption of a high tariff policy, array them against the manufacturing interests of the east? I say it would be in the interests of the manufacturers themselves to take account of these

things. The best way you can help the manufacturers of Canada is to fill up the prairie regions of Manitoba and the Northwest with a prosperous and contented people, who will be consumers of the manufactured goods of the east. But if, through the adoption of an extreme policy of protection which they would regard as burdensome to themselves, you were to undertake to impose rates of duties so excessive as to challenge the hostility of these people, then I say there will be an antagonism between the east and the west, and the result will be unfavourable to the upbuilding of Canada. Let us rather hold out the hand of encouragement to these people who come in and open up new homes in that land, let us adopt a policy under which the expenses of living will not be excessive, under which, in fact, living shall be as cheap as possible. As I have said, there have been extreme views on both sides, and we have tried to avoid them. We have endeavoured to give the country a tariff of stability, a tariff which, in so far as a tariff has any relation to prosperity, has been an important factor in the development of Canada the last few years. The efforts we have made to compromise conflicting interests, the willingness we have manifested to meet opposing interests and endeavour to reconcile them, affords the best guarantee that, in any future changes which may have to be made, the question will be approached in the same spirit and, let us hope, with the same happy results.

I suppose, Sir, that next to Great Britain and the United States, the countries in which we naturally feel the most interest, both in trade matters and in other respects, are France and Germany. With regard to France, we have a treaty existing for a number of years which covers, unfortunately, only a small list of articles, and which is not quite satisfactory to us in its terms; we think it is perhaps a little one-sided. However, if it has not been very successful in the development of business, that treaty has done something, and we hope it will prepare the way for better things. During the past year, when several ministers of the Crown were in Europe, we availed ourselves of the opportunity of going into this question of trade with France, and with the approval of His Majesty's government, we entered into negotiations with the French

government at the Foreign Office in Paris. I am glad to be able to say, though I am sure it is not necessary to say it, that the French authorities met us with every possible courtesy and consideration, and manifested a very warm desire to extend their trade relations with Canada. Unfortunately the time would not permit us to follow up the negotiations to a conclusion; but I feel very hopeful, from the encouragement that we then received, that at no distant date we shall be able to extend very considerably the scope of our present commercial treaty with France.

I come now to Germany. Prior to July 31, 1898, we had a treaty with Germany, or to be more exact, we were participating in a treaty between Great Britain and Germany under which we, as well as the mother country, received the benefit of what is called the favoured nation treatment. That was the condition of affairs for many years. But that treaty, while satisfactory as far as favoured nation treatment was concerned, contained one clause that was very obnoxious to the people, not only of Canada but of the colonies generally. That treaty contained a clause that the duties imposed upon goods coming from Germany should not be higher, not only in Canada but throughout the empire, should not be higher in any case than the duties imposed on goods coming from Great Britain. Favoured nation treatment deals with the giving to one nation of as favourable treatment as you give to any other nation. This treaty went beyond that. It required that we should give Germany not only favoured nation treatment but the same treatment we were giving the mother country. This clause in the old treaty was a very objectionable one and was frequently the subject of comment and protest on the part of the colonies. But, all our protests were unavailing. However, in 1897 Canada rather forced the issue by asserting in her tariff of that year her right to grant a preference to the goods of the mother country over the goods of any foreign nation. That right was questioned and after a legal argument that right was denied. It was held that we were bound by the terms of the treaty, that we must give to the products of Germany the same treatment that we gave to the products of the mother country, and it followed that

if we gave it to Germany then the so called favoured nation treaties with other countries came in and we had to give it to the other countries as well ; so that practically the preference to the mother country was for the moment cancelled. But, while the imperial government felt bound to take that view, they immediately realized that that was a condition of affairs that should not continue and they gave notice that after the 31st of July, 1898, the treaty would cease and determine, and it did. Then, a new question arose. Shortly before the expiry of the treaty negotiations were opened by the imperial government for a new treaty. It was explained that the German government were not prepared to make a permanent treaty with any country at that time, but that they were making provisional treaties to tide over a few years, and they made a provisional treaty with Great Britain whereby Great Britain was to continue to have the benefits of favoured nation treatment, but they specifically excluded Canada from the benefits of that treaty.

Mr. BORDEN (Halifax). Great Britain and the colonies.

The MINISTER OF FINANCE. Yes, they extended it to Great Britain and the colonies generally but they particularly excluded Canada. So soon as that became known we entered a protest against it. Communications passed between our government and the High Commissioner in London. The treaty did not expire until the end of the month of July, 1898, and on the 11th of July, 1898, shortly before the treaty actually expired, Lord Strathcona addressed a letter to the Under Secretary of State for the Colonies. We shall lay on the Table of the House all the correspondence on the subject, but for the purpose of my speech I will read one or two letters which will put the House in possession of the essential facts.

RELATIONS WITH GERMANY—LORD STRATHCONA'S LETTER.

17 Victoria Street,  
London, 11th July, 1898.

Sir,—I beg to acknowledge Mr. Cox's letter of the 5th instant with a copy of the note from the German ambassador to the Marquess of Salisbury, communicating the decision of the Bundsrath on the question of provisional commercial relations between the German empire

and Great Britain and the colonies, on the expiry of the present treaty.

The Dominion government, I am advised, have observed with much regret that Canada is to be excluded from the grant of the most favoured nation treatment which is to be extended by Germany after the 31st instant to imports from the United Kingdom, the British colonies and the foreign possessions of the empire.

It is true that the Dominion is granting to the United Kingdom and to certain British possessions a preferential tariff after the 31st instant, but that is a matter of purely domestic policy as distinct from foreign policy. And in this connection I may state that Canada proposes to extend to Germany the same privileges that are accorded to all other foreign powers. It will be gratifying to the Dominion government if it is possible to continue this policy so far as Germany is concerned. And all that Canada asks in return is the same treatment that is being extended to Germany. No suggestion has ever been put forward that the exports from the Dominion should be placed in Germany on the same footing as goods exchanged between the different states that form the German empire.

There is one other point I may mention. It is that though in the French, Spanish and Portuguese colonies preferential rates of duty are conceded to imports from the metropolitan countries, I believe I am correct in stating that imports into Germany from these colonies are not refused most favoured nation treatment.

I have been requested by the government of Canada to ask Her Majesty's government to represent the matter to the German government, and with all respect, I venture to express the hope that the German government will find it possible to reconsider its decision and thus prevent a disturbance of the commercial relations between Germany and Canada which must otherwise result to the disadvantage of both countries.

I am, Sir,

Your obedient servant,

(Sgd.) STRATHCONA.

The Under Secretary of State for the Colonies,  
Colonial Office.

Downing Street, S.W.

We have been criticised in this House for not having adopted retaliatory legislation towards Germany. I admit that there was very much in the circumstances to tempt parliament to take such a course. However, the view which we took was that in matters of an international character we should not adopt any hasty or ill advised legislation, but that we should endeavour by patient representations to impress our views on the German government, in the hope that a better understanding would be brought about, and so, from the beginning, as shown by Lord Strathcona's letters under instruc-



tions from the government, we made these representations. Unfortunately, all our efforts in this direction have proved unsuccessful. Representations were made through the diplomatic channels of the British government, but without success. In the fall of the year 1901, and particularly in November, we concluded that as the usual form of diplomatic negotiations through the imperial authorities had not proved successful, we would avail ourselves of opportunities to discuss the subject with the gentleman who holds the very honourable position of Imperial German Consul in Montreal, Mr. Bopp. He was good enough to meet us in a friendly spirit and gave us the use of his official channel of communication to express our views. Of course, representing the German government, in our conversations with him, he was by no means ready to accept our views, but we thought that we should press the matter upon the German government through him, as well as through the more official channels of the colonial office. Thereupon, in the month of November, 1901, after a conference held by the right hon. leader of the government (Rt. Hon. Sir Wilfrid Laurier) the hon. Minister of Customs (Hon. Mr. Paterson) and myself with Mr. Bopp we prepared the following memorandum:—

**RELATIONS WITH GERMANY—MR. FIELDING'S MEMORANDUM FOR THE GERMAN CONSUL AT MONTREAL.**

The undersigned Minister of Finance, having in conjunction with the Right Honourable the Prime Minister and the Honourable the Minister of Customs, had an interview at Ottawa with Herr Franz Bopp, His Imperial German Majesty's Consul at Montreal, on the subject of the trade relations between the German empire and the Dominion of Canada, submits for the consideration of council the following observations thereon.

Prior to 31st July, 1898, Canada, as a portion of the British empire, received the most favourable tariff treatment in Germany, under the terms of the treaty which had long existed between that country and Great Britain. On the date named, that treaty, having been denounced by the British government, ceased to have effect. Provisional agreements have since been entered into from time to time between Great Britain and Germany. Canada, however, has been excluded from the benefit of such agreements. The products of Canada are no longer admitted into Germany on the favoured terms known in the German tariff as 'conventional duties,' but are specially excluded therefrom and made subject to the higher duties of the general tariff. The reason assigned by the German government for this discrimination against Canada is the enactment by the Dominion of legislation granting preferential tariff

rates to the products of Great Britain. The undersigned desires to point out that the policy of the Canadian government was not designed to give any foreign nation more favoured treatment than was to be allowed to Germany. The Canadian policy has been confined to a readjustment of the commercial relations of the Dominion with the British empire of which it is a part, a domestic affair which could hardly be open to reasonable objection by any foreign government. It would, therefore, seem that the action of Canada afforded no just ground for complaint by Germany. The undersigned is of opinion that there has been some misconception of the Canadian policy in this respect, and hopes that upon further consideration the German government will see that Canada, in taking the step referred to, did not forfeit her claim to the advantages accorded by Germany to the most favoured nations.

Apart, however, from the purpose of the Canadian policy in question, the undersigned invites attention to the fact that the trade between the two countries, which was largely in favour of Germany under the treaty, has continued to be equally favourable since the treaty ceased to exist. Canada was and still is a large purchaser of German goods, while Germany was and still is but a small purchaser of the products of Canada. The following statistics will clearly show how largely the balance of trade is in favour of Germany:

**IMPORTS FROM GERMANY INTO CANADA FOR HOME CONSUMPTION FOR THE FISCAL YEARS ENDING JUNE 30.**

1896.....	\$5,931,459
1897.....	6,493,368
1898.....	5,584,014
1899.....	7,393,455
1900.....	8,333,493
1901.....	7,021,405

These imports it is believed have been substantially all of German origin.

**TOTAL EXPORTS OF CANADA TO GERMANY DURING THE FISCAL YEARS ENDING JUNE 30.**

1896.....	\$ 757,531
1897.....	1,045,432
1898.....	1,837,448
1899.....	2,219,569
1900.....	1,715,903
1901.....	2,141,552

A portion of these exports was not Canadian but merely passed through Canada in transit. The following statement shows more accurately to what extent Germany is a buyer of Canadian goods:—

**EXPORTS OF THE PRODUCTS OF CANADA TO GERMANY DURING THE FISCAL YEARS ENDING JUNE 30.**

1896.....	\$ 606,919
1897.....	764,589
1898.....	1,419,096
1899.....	1,810,373
1900.....	1,128,163
1901.....	1,374,616

In view of this evidence that the trade between the two countries continues to be very largely in favour of Germany, the purchases

from that country being more than five times greater than Germany's purchases from Canada, the undersigned thinks that the German government may be fairly asked to give the products of the Dominion the most favoured treatment in the German markets.

The fact that Canada, while so largely a purchaser of the goods of Germany, is treated unfavourably by the tariff laws of that country, is regarded by many in the Dominion as evidence of unfriendliness and has led to demands for retaliatory tariff legislation. The Canadian government have not yielded to such demands, deeming it better to place the facts before the German government in the hope that the present discrimination against the products of Canada may be removed.

The Canadian government would at a convenient moment be prepared to consider the general question of trade relations between Germany and the Dominion. The undersigned understands, however, that it is not the policy of the German government at present to make any commercial treaties extending beyond the year 1903, it being desired that at that time all commercial arrangements with foreign nations shall be subject to revision. It would therefore be inexpedient for the Canadian government to enter into negotiations at this moment with a view to a general treaty with Germany. Negotiations of that character necessarily occupy considerable time and it is probable that before any arrangement satisfactory to both countries could be reached the period for which the German government are disposed to agree would almost have expired.

The undersigned therefore submits that, reserving for further consideration the question of a treaty to take effect after the year 1903, it is desirable that a friendly temporary arrangement be made with Germany. In view of the figures already presented, showing how largely the balance of trade is in favour of Germany, it would not be unreasonable to ask the German government to take that important fact into consideration and extend to Canada the tariff advantages from which the Dominion is at present excluded.

The only matters in which the products of Germany are at any disadvantage in the Canadian markets as compared with the products of other foreign countries are those which arise out of the arrangements made between France and Canada by the commercial treaty of 1894. The advantages of that treaty were extended to Germany and were only withdrawn after the adoption by the German government of the adverse policy which is the subject of this memorandum. In the event of Germany agreeing to allow favoured nation treatment to the products of Canada the benefits which are granted to France under the treaty of 1894, should, of course, be extended to Germany, thus placing German goods in every respect on equal terms with the goods of other foreign countries.

The making of a formal treaty would require the appointment of plenipotentiaries by His Majesty the Emperor of Germany and His Majesty the King of Great Britain on behalf of Canada. But while recognizing this fact, the undersigned is of opinion that a friendly exchange of views between members of the Canadian government and Herr Bopp, representing the government of Germany, may be very useful in bringing about a better understanding, and therefore it is recommended that a copy of this memorandum be furnished confidentially

to Herr Bopp. If Herr Bopp should be able to intimate at an early date that the suggestions herein made are received with favour steps could then be taken to have the matter dealt with more formally through the proper treaty-making channels.

(Sd.) W. S. FIELDING,  
Minister of Finance.

Department of Finance,  
Ottawa, November 18, 1901.

The figures in this memorandum are brought down to the end of the fiscal year ending 30th June, 1901. The figures for the following year sustain the position taken as to the large balance of trade favourable to Germany. In that year, 1902, our imports from Germany for home consumption were \$10,823,169, while our exports to Germany of the produce of Canada were only \$1,298,654. Sir, I regret to have to say that unfortunately all these efforts to bring about a better understanding with Germany have failed. We have patiently, as it will be acknowledged, for the long period of five years endeavoured to bring about such an understanding—a longer period than some hon. gentlemen opposite were willing to wait, for they criticised us, and perhaps with reason, because we did not make some hostile movement in previous years. However, Sir, we do not think that we can afford to let the matter stand in its present position any longer.

Some hon. MEMBERS. Hear, hear.

The MINISTER OF FINANCE. After these five years of careful, patient negotiation, we think it is our duty to place all the facts before the parliament of Canada and to take such steps as will assert the right of the people of Canada to make arrangements, either as respects their trade or any other matters, with the mother country or any part of the British empire, without admitting the right of any foreign nation to interfere in the matter in any shape or form.

Some hon. MEMBERS. Hear, hear.

The MINISTER OF FINANCE. Our German friends have given us some idea of how we may deal with a matter of that sort. We have not any legislation in our tariff at present which would enable us to deal with such an exceptional condition. Our German friends have shown us, however,

how the thing may be done, if we care to follow them. I have in my hands an extract from the new German tariff. This is the tariff law which was recently passed but which I think is not in operation at the present time. It is to be brought into operation by order later on. But it is the latest German tariff law. It says:

Dutiable goods proceeding from states that treat German ships or products less favourably than those of other nations may without prejudice to the tariff duties, be burdened with a surtax ranging up to 100 per cent of the tariff duty imposed on such goods, or even with a surtax equivalent to the total value of the goods themselves. Goods free of duty in virtue of the tariff may under the same conditions be taxed with a duty not exceeding 50 per cent ad valorem.

Germany would hardly be able to complain if we should copy that clause into our tariff.

Some hon. MEMBERS. Hear, hear. Put it there.

The MINISTER OF FINANCE. But still with that policy of moderation which has always to be observed—

Some hon. MEMBERS. Hear, hear.

The MINISTER OF FINANCE. We may learn a useful lesson from foreign countries without going too far in the matter. We do not propose to interfere, as the German tariff proposes to do, with free imports. In their proposal and the power they take in their tariff, they can impose a duty on free goods; goods which would otherwise be free but which in this particular case would be dutiable. We do not propose to do that. But we do propose that as respects the dutiable goods we shall insert in our tariff a clause to the effect that when any foreign country treats the imports from Canada on less favourable terms than the imports from other countries; then in such a case there may be imposed on the goods of such foreign country, a surtax over and above the duties expressed in schedule A of our tariff, which is commonly known as the general tariff, such surtax to be one-third of the duty so expressed in schedule A of the general tariff. This clause the House will observe is general in its terms and may be applied at any time to any foreign country which

treats Canadian products unfavourably. But we propose to apply it immediately to the case of Germany and it will take effect as respects all German goods in all the customs-houses of Canada to-morrow morning—

Some hon. MEMBERS. Hear, hear.

The MINISTER OF FINANCE—Subject, however, to this reasonable qualification that it shall not apply to any goods which have been actually purchased by any corporation, firm or person in Canada prior to this moment for immediate transportation to Canada. With that qualification, at every custom-house in Canada to-morrow the surtax will be imposed on German goods. One effect of this I suppose will naturally be to diminish our imports from Germany and to lead our importers to send their orders to countries which are more disposed to buy from us, and I suppose one effect will be to give a further encouragement to the trade with the British West Indies. If that should happen that also would be of some advantage.

There are two or three other tariff matters to which I wish to invite the attention of the House. While we have desired to meddle as little as possible with the tariff schedules, there are a few items which stand in peculiar circumstances. For the past year the manufacture of rails has been carried on to some extent in connection with the great enterprises at Sault Ste. Marie. The government, recognizing that industry as one deserving of encouragement, gave the company a large order for rails, which it was only able in part to fill. We have not been unwilling to view with favour a proposal to extend to this manufacture the same degree of tariff encouragement which is enjoyed by most of our industries. But we have hesitated to do that in this case, because we were not satisfied that the mill at Sault Ste. Marie was in a position to supply either the quantity or the quality of rails required by the Canadian railways. It has seemed to us that the imposition of a duty under such conditions would not serve its purpose. We have decided that while we should not be justified in imposing a duty now, we may reasonably ask the House to agree to a duty, to take effect when there are rail mills, either at Sault

Ste. Marie or elsewhere, in a position to turn out rails of proper quality and in reasonable quantity. We, therefore, ask that power be given to the Governor in Council to impose by Order in Council a duty of \$7 per ton on steel rails, provided, however, that such order shall not be passed until the government are satisfied that there are rail mills in Canada making the best quality of rails, and in a sufficient quantity to meet the reasonable demands of the market. This duty, when imposed, will, of course, be subject to the British preference as usual.

Another industry on whose behalf urgent representations have been made to us, is the lead industry of British Columbia. We find, however, that the duties which the people interested in that industry desired to see imposed would necessitate a readjustment of other duties, involving considerable increases which we are not prepared to entertain. Therefore, so far as tariff changes are concerned, we find ourselves unable to agree to the proposals. Nevertheless, we appreciate the importance of the lead industry and realize the desirability of encouraging it, and we are willing to consider whether the situation may be met by some readjustment of the law respecting bounties on lead. Further than this we are unable to go at present.

Another industry which occupies a peculiar position is that of binder twine. In 1897 we placed binder twine on the free list. It was said by many people that that was the death blow of the binder twine industry. Strange to say, however, there are more binder twine factories in Canada to-day without a duty, than there were with a duty—another instance showing that theories and facts do not always come together.

Mr. MACLEAN. We have seen a lot of those theories to-day.

The MINISTER OF FINANCE. I am looking at my hon. friend. I see the whole World when I look at him.

Mr. MACLEAN. It is not a bad looking world either.

The MINISTER OF FINANCE. Oh, the world looks very pleasant. With a good government and a good tariff, it is not such a bad world. With respect to the binder

twine industry, up to a certain point it seemed to flourish on a free trade basis; but a peculiar position has arisen owing to the legislation of the American government with respect to the Philippine Islands. That government has imposed an export duty of three-eighths of a cent per pound on manilla exported to all countries, with the proviso that where the manilla goes to the United States and is used in manufactures, the manufacturer shall be allowed a rebate equalling the amount of the export duty. This practically amounts to a bounty to the American manufacturer to the extent of that duty. In the case of the binder twine manufacturer in Canada, this works a particular hardship. While he has no advantage whatever in our tariff, his American competitor, besides being aided by this bounty, has free access to our market. This is a condition of affairs which we admit calls for some action; and though we are not dealing with it in the tariff resolutions, the government will introduce, before the session closes, some legislation whereby the binder twine manufacturers of Canada will be compensated for the disadvantage under which they suffer as respects the export duty on manilla imposed by the American government.

There is an item in the tariff which imposes a duty upon foreign-built ships when entered for registration in Canada. We found that some persons evaded the provisions of that law by taking foreign-built ships to Newfoundland, registering them as British ships, and then bringing them as such into Canada. To prevent this evasion, we provided by legislation last session for the imposition of a license fee upon all foreign-built ships engaging in our coasting trade. That Bill did not at once become law, but was reserved for the consideration of the imperial government. It has since been confirmed by His Majesty's government, and is now in force. We did not repeal the duty on ships last session, so that as the matter stands at present we have both the duty and the license fee, which, of course, was not the intention of parliament. We therefore propose to repeal the tariff item which imposes the duty, and leave the matter to be regulated by the license fee.

We have for some time past granted exemption of duty on machinery imported for

the manufacture of beet-root sugar. That exemption expired on the 1st of April. We propose to renew it for another year up to the 1st of July, 1904.

With a view of encouraging alluvial gold mining in the Yukon district, we propose to ask the House to place on the free list until the 30th of June, 1904, machinery and appliances of a kind not made in Canada for exclusive use in alluvial gold mining.

I think I have now stated all the changes to be made in the tariff.

Mr. MACLEAN. Woollens.

The MINISTER OF FINANCE. There is one other change which is not included in my resolutions, but which will come later. There is a provision in the Customs Act that we may admit free of duty certain articles for the use of manufacturers. I suppose the principle should hold that the greater includes the less; and if we could take the duty off altogether, it would seem to be a sensible inference that we could take off part of it. However, the Act is not so interpreted. If we want to give the manufacturer absolute freedom of duty, we can do it; but if we think that this is too much and want to give him something less it is held that under the present Act we have not power to do it. There are some curious things in connection with the administration of our tariff laws. There are cases in which it is found that the raw materials which have to be imported from a foreign country are charged a higher duty than the manufactured article made from such materials which comes in from Great Britain under the preferential tariff. With the view of meeting such a case, we propose to amend the Customs Act so that we shall not only have the power in such a case to abolish the duty, but to reduce it.

There is another matter, perhaps somewhat outside the line of the budget, but nevertheless of much importance, as to which I desire to make a short statement.

The Dominion has spent a vast sum of money in the construction of canals and in the improvement of our waterway from the great lakes to the ocean, by way of the St. Lawrence river. Some years ago, these canals had but little depth of water. It was deemed wise to enlarge and deepen them, at a very heavy cost to the Canadian

treasury. The canal system is now about complete, and we are looking to it, as well as to our railways, to carry the great volume of traffic which must pass between the western and eastern portions of Canada. Those who are most closely associated with the operation of the waterways are naturally anxious that every possible obstacle may be removed and every reasonable encouragement given for the transportation of our products through these channels to Montreal and other ocean ports. A large deputation of gentlemen interested in the traffic recently waited upon the government and urged that, with a view to giving greater encouragement to the business, canal tolls should be abolished, and the inland waters made as free to ships as the ocean is. The government have given the subject very careful consideration. There is room for some doubt whether the tolls that are charged are large enough to be a serious obstacle to the traffic.

But while these doubts exist, we do not feel that they are such as should prevent us giving the proposal a trial. The revenue involved, though considerable, is not large enough to prove a disturbing factor in these days of prosperous Canadian finances; and we would gladly yield up this item of our receipts if we could feel assured that it would have the great effect anticipated by the gentlemen who comprised the deputation. We desire to reserve our right as to future action, which may depend upon the results of the experiment which we intend to make. Subject to that reservation, I now announce that the government have determined for a period of two years to suspend the charges for tolls and make the entire canal system of Canada absolutely free to all.

This, as I have said, we will try as an experiment. We hope it may be justified, and we reserve our right as to what may be done at the end of the two years. We think that a trial of that kind will be all that those more particularly interested in this matter can ask us to do, and we do it with the desire that our great waterways shall carry the traffic which nature has destined they should carry.

I am sure, Mr. Speaker, that every member of this House and every good citizen of Canada will rejoice over the happy condi-

tions which enable me to make such a gratifying statement of the affairs of the Dominion. We have every reason to view the progress of our country in the past with pleasure. We have even more reason for looking forward with hope and confidence to the great future that is before those whose privilege it is to dwell on this northern half of the American continent. We may differ in many respects, but not in our gratification that prosperity in a large degree has visited our country. Never in any previous period in our history was the future so full of promise. Never before in her history did our country loom so largely in the eyes of the world. We have ourselves long been aware of the magnificent resources of our vast territories, but our efforts to make these resources known and appreciated abroad have sometimes been less successful than could have been wished. But whatever may be said of the past in that respect, we have nothing to complain of now. In the mother country, on the continent of Europe, and even in the republic to the south of us, the story of Canada's advancement, Canada's wealth of resources, and Canada's splendid future is engaging the attention of the people, and many thousands of immigrants of the best class are crowding the steamships and the railway trains in their haste to reach the new country. We have every reason to welcome these people. We are glad to know that they are casting in their lot with us. Let us, to whom, as members of parliament, is given the high privilege of directing the affairs of this Dominion, fail in anything that is within our power to give assurance to our new citizens that the land to which they have come is one that will reward intelligent and faithful labour with the blessings of peace, happiness and prosperity. I beg to give notice of the following resolutions :

That it is expedient to further amend 'The Customs Tariff, 1897,' to the following effect :—

That the following sections be added to the said Act :—

The Governor in Council may by Order in Council direct that a duty of seven dollars per ton shall be imposed in Schedule A on all iron and steel railway bars, or rails in any form for railways, imported into Canada ; and from and after the publication of such Order in the 'Canada Gazette' such duties shall be levied, collected and paid on all such rails ; and thereafter item 238 in Schedule A and item 585 in Schedule B shall be repealed.

Provided, however, that such Order shall not be passed until the Governor in Council is satisfied that steel rails of the best quality, suitable for the use of Canadian railways, are being manufactured in Canada, from steel made in Canada, in sufficient quantity to meet the ordinary requirements of the market.

Articles which are the growth, produce or manufacture of any foreign country which treats imports from Canada less favourably than those from other countries may be subject to a surtax over and above the duties of Schedule A, such surtax in every case to be one-third of the duty as fixed by such Schedule A.

Such surtax shall apply to any article, the chief value of which was produced in such foreign country, although it may have been improved or advanced in value by the labour of another country, notwithstanding the provisions of the British preferential tariff and regulations thereunder.

Any question arising as to any foreign country or goods coming under the operation of this section shall be decided by the Minister of Customs, whose decision shall be final.

The Minister of Customs, with the approval of the Governor in Council, may make regulations for carrying out the purposes of this section.

Such surtax shall not apply to any goods actually purchased on or before the 16th day of April, 1903, by any corporation, firm or person in Canada, for immediate transportation to Canada.

That the period of exemption from duty of machinery of every kind and structural iron and steel for use in the construction and equipment of factories for the manufacture of sugar from beet root be extended to the 30th day of June, 1904.

That item 409 in Schedule A, respecting duty on ships and other vessels built in foreign countries and applying for Canadian register, be repealed.

That machinery and appliances of a kind not made in Canada for exclusive use in alluvial gold mining be added to the free list until June 30, 1904.

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