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ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS IN CANADA, 1925-1927

The accompanying table shows that in 1927 the surplus of commodity exports over imports, including gold coin, bullion and subsidiary coin, and after making certain adjustments in the trade statistics for non-commercial transactions, etc., was \$161 millions. To this credit item we must add in our balance statement (1) a credit of \$139 millions for services rendered to tourists visiting the Dominion over services to Canadian tourists in other countries; (2) a credit of \$197,000, the difference between the expenditure of our government abroad and of foreign governments in Canada; (3) a credit of \$518,000 for the difference between transactions of outside insurance companies in Canada and Canadian Insurance Companies abroad; (4) a credit of \$5 millions paid to Canadian publications by other countries for advertising; and (5) a credit of \$5 millions for the exportation of electrical energy. Against these credits we must place debits of (1) \$950,000 which was the difference between the cost of services performed for us on railroads and steamships of other countries and those which we performed for other countries; (2) \$7 millions for the difference between foreign and domestic remittances; (3) \$900,000, the difference between receipts and payments in connection with charitable and missionary contributions; (4) \$3,500,000 for motion picture royalties; and (5) \$1,400,000 representing the difference between the capital brought into and taken out of Canada by immigrants and emigrants.

When debits and credits are totalled they require a credit item of \$81,000,000 in order to balance--which means that on balance our export of goods and services in 1927 were greater than our imports of the same by that amount. This difference, supposing all international transactions to have been accurately accounted for, represents the amount invested abroad by Canadians in that year over and above capital imports into Canada.

It is obvious that in a calculation of this kind absolute accuracy is unattainable and the figures must be accepted as liable to some margin of error. That they are indicative, however, of the state of affairs is shown by a direct estimate of capital movements for the same year. This estimate which will be published in a separate bulletin by the Bureau shows that there was a considerable net export of capital from Canada during the year. The following is a statement of the theoretical and historical background of the above figures.

The "Invisible" Items of Trade

"Balance of Trade" figures are the subject of much misinterpretation. This arises from the persistence of the doctrine to the effect that a nation's trade is in a healthy state only when exports exceed imports, necessitating an import of gold to make up the difference. Trade was then said to show a "favorable balance." This theory only took account of the "visible" or commodity items of trade, whereas the real condition of a nation's international transactions can only be known when not only the commodity items are considered but also the "invisible" items such as interest, freight, immigrant remittances, financial services, tourist traffic, etc. In short all debit and credit transactions must be set down in order to find out the basic state of affairs. If all the visible and invisible items are set down in their appropriate column, the debit or credit difference will be a final invisible item--representing in the accompanying table an export of capital--and this brings the nation's trade account into a state of balance. Just as in the case of an individual an excess

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of expenditures over receipts must be made up by borrowing, or an excess of receipts over expenditures must result in a capital asset, so it is in the case of a nation.

To take the nation's commodity trade alone as an index of its prosperity or otherwise would be somewhat akin to considering the returns received by an individual from his daily trade and ignoring other sources of revenue or records of indebtedness incurred through other lines of activity.

Historical Review

The commodity or trade balance of a country cannot be understood by itself but only as it is interpreted in the light of the invisible items of the country's activities. In the light of such data it will be found that a so called favorable or unfavorable balance will mean entirely different things at different times in a country's history. From 1868 to 1893 the normal condition in Canada was an excess of imports over exports. In only two years (1880-1881) was this reversed. From 1894 to 1903 we had an excess of exports which is explained largely by interest on and repayments of capital, borrowed in the earlier period. 1904 to 1914 was a period of heavy capital borrowing, consequently we find our imports exceeding our exports during that period. With the commencement of the war, as was to be expected because of our position as a source of supplies for the allies, we entered upon a period of excess commodity exports which has continued to date with the exception of 1921, in which fiscal year we had an excess of imports. 1921 was in the period in which Britain made her largest repayments to us of war borrowings.

The Post War Record

The years succeeding the war are of peculiar interest with regard to our trade figures for they represent a transition, which is possibly temporary, from a borrowing to an investing country. Since the calendar year 1923 we have actually been a greater exporter than an importer of capital. This fact furnishes a different explanation for our excess of exports than any period since 1868 which proves the point mentioned above that the excess of commodity imports or exports can only be understood in the light furnished by the whole story of our international transactions.

If then we turn from consideration of commodity trade alone to that of all our trade and transactions we find the real story of our international trade. The Bureau has prepared an Estimated Balance of International Payments in Canada, for the years 1920-1927, which shows that when all items, visible and invisible are considered, the debits and credits of our international transactions were balanced in 1920 by capital imports of \$268,000,000, in 1921 of \$137,000,000, and in 1922 of \$68,000,000. In these years Britain repaid us war funds advanced, as follows: 1920, \$104,000,000; 1921, \$128,000,000; 1922, \$84,000,000. 1923 was the transition year and thereafter the debit and credit sides of our international account were balanced by capital exports as follows: 1924, \$108,000,000; 1925, \$277,000,000; 1926, \$191,000,000; 1927, \$81,000,000.

ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS, 1925-1927

000's omitted

	1925			1926			1927		
	Exports Visible & Invisible	Imports Visible & Invisible	Balance	Exports Visible & Invisible	Imports Visible & Invisible	Balance	Exports Visible & Invisible	Imports Visible & Invisible	Balance
1. Commodity Trade -									
Recorded merchandise exports and imports..	1,283,099	890,193		1,283,939	1,008,342		1,238,782	1,087,118	
Exports and Imports of gold coin and bullion and subsidiary coin.....	40,172	50,509		79,563	47,126		49,359	44,220	
Unrecorded imports of ships.....	-	1,938		-	1,000		-	269	
Deductions for settlers' effects shown elsewhere and miscellaneous items.....	11,737	16,396		11,864	16,873		10,513	14,998	
Total.....	1,311,534	926,244	/385,290	1,351,638	1,039,595	/312,043	1,277,628	1,116,609	/161,019
2. Freight payments and receipts.....	102,951	96,213	/ 6,738	111,094	102,526	/ 8,568	109,292	110,241	- 949
3. Tourists' expenditures.....	173,289	67,395	/ 105,894	190,463	90,043	/ 100,420	242,754	103,782	/ 138,972
4. Interest payments and receipts.....	51,159	258,970	- 207,811	66,396	280,419	- 214,023	80,830	296,452	- 215,622
5. Immigrants' and emigrants' remittances.....	15,190	18,684	- 3,494	15,550	20,509	- 4,959	15,433	22,423	- 6,990
6. Expenditures of Governments.....	11,917	10,935	/ 982	11,948	10,863	/ 1,085	11,948	11,751	/ 197
7. Charitable and Missionary Contributions.....	726	1,891	- 1,165	814	1,878	- 1,064	873	1,766	- 893
8. Insurance transactions.....	15,661	18,597	- 2,936	15,342	22,198	- 6,856	25,234	24,716	/ 518
9. Advertising.....	2,639	-	/ 2,639	3,143	-	/ 3,143	5,228	-	/ 5,228
10. Motion picture royalties.....	-	3,500	- 3,500	-	3,500	- 3,500	-	3,500	- 3,500
11. Capital of immigrants and emigrants.....	7,425	12,884	- 5,459	9,636	13,396	- 3,760	10,132	11,521	- 1,389
12. Export and Import of Electrical Energy.....	-	-	-	-	-	-	4,798	87	/ 4,711
	1,692,491	1,415,313		1,776,024	1,584,927		1,784,150	1,702,848	
13. Net capital export (indirect Est.).....		277,178			191,097			81,302	
	1,692,491	1,692,491		1,776,024	1,776,024		1,784,150	1,784,150	
14. Net capital export (direct Est.).....		176,741			85,315			18,680	

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