II

ECONOMIC PENETRATION

1. *The Opening Wedge of Imperialism*

Peaceful economic penetration, the opening wedge of imperialism, results from the migration of capital.

Capital is probably more fluid and mobile at the present time than is labour. During the past century, capital from industrial countries has penetrated the most remote parts of the world—first in shipping and trading ventures; later in mining, agricultural, manufacturing, public utility and similar enterprises. C. K. Hobson [1] gives a detailed account of British overseas investment; the opening chapter of this book tells the same story for the United States, and the principle of capital migration with minor variations applies to the other leading industrial countries. Just as fluid capital (credit) is transferred from New York and Boston to Kansas City and Denver, fluid capital is transferred from Paris and London to Buenos Ayres, Cape Town and Toronto. National boundary lines make the movement of capital more difficult; wars temporarily restrict it, but in the long run it is easier to get a visa for a financial transaction than it is for a passport permitting emigration. "In modern times," writes C. K. Hobson [2] "emigration of capital has been more and more separated from emigration of persons. It has become possible for persons to move from one land to another and to retain full rights and adequate control over the capital which they have left behind them. In the same way, persons who remain in their own country can send their property abroad while retaining their rights to it, and obtaining periodic payments for the service performed by it."

[1] Hobson, "Export of Capital."
[2] Ibid., pp. 77–78.

The migration of capital is most easily studied in the case of two neighbouring countries like Canada and the United States having the same language and business customs. In such a situation, given a reasonable degree of security and stability, the movement of capital will be almost as free as it is between the various states of the United States. This is particularly true when there is a surplus of capital on one side of the boundary and a shortage of it on the other.

2. *Financing a New Civilization*

Like the United States, Canada was settled and is occupied by Europeans and their descendants, while more than nine-tenths of the Mexican population is Indian. Canadian industrialism grew very slowly prior to 1900 and during the last twenty years it has made great progress, particularly under the pressure of war demand. Twenty-five years ago, the United States farmers and United States bankers both had ample room for expansion inside their own borders. With the exhaustion of free land, however, the abundant and undeveloped Canadian resources assumed a position of vital importance to the farmers, miners, lumbermen and other business interests in the United States.

Canada is larger than the United States by half a million square miles. Its total productive land is rated at 537.8 millions of acres (as compared with 293.8 millions in the United States). The forest acreage of Canada is rated at 800 millions compared with an acreage of 500 millions in the United States. Canada has one-sixth of the total coal reserves of the world, while in Newfoundland alone there are 3,635 million tons of iron ore (as compared with about 4,200 million tons in the United States). E. C. Eckel[1] notes that there are deposits across Canada from New Brunswick to British Columbia which have never yet been adequately surveyed.

These extensive tracts of agricultural land, timber land, coal deposits and iron reserves, make Canada the logical field for expansion from the United States. Within a few years the

[1] Eckel, "Iron Ores," pp. 378–385.

United States will cease to produce a sufficient supply of wheat and meat to feed its own population. The Canadian wheat fields will then become indispensable. Already the timber supply of the United States is seriously depleted and the forest reserves of Canada are being drawn upon for paper stock and for lumber. The coal of Nova Scotia particularly and the iron of Newfoundland constitute economic advantages of huge importance to United States heavy industry.

3. *The Growing Canadian Demand for Capital*

Canada herself has been slow to develop her resources. Although the Canadian territory was colonized at the same time as that of the United States, various factors have operated to prevent the growth of Canadian population and of Canadian industry. At the present time, while the area of Canada is greater than that of the United States, the population is only about seven per cent of the population of the United States, and the disparity between the wealth of the two countries is equally striking. The completion of transcontinental railway lines toward the end of the nineteenth century laid the basis for a new Canadian expansion in the course of which both British and United States capital have penetrated the Dominion to a very considerable degree.

4. *British Bankers Supply the First Canadian Capital*

Until about 1900, the amount of British capital invested in Canada was small. With the opening of the Canadian West, however, and the development of mining, manufacturing, lumbering and farming, a new field was created which British investors were glad to seize. So rapid was the development of Canadian demand for capital that by 1910 Canada had more British capital invested than any of the other dominions.[1]

In 1913 Canadian flotations in London amounted to 47 million pounds sterling out of a total of 245 million pounds of capital subscriptions made in the United Kingdom, or nearly one-fifth of the whole. This movement continued to the very

[1] "Annals," v. 68, p. 29 ff.

eve of the war: in the first six months of 1914 over 37 million pounds sterling of British capital found the same outlet.[1]

C. K. Hobson estimates [2] that in 1913 British investors placed 44 million pounds sterling in Canada as compared with 18 million pounds in Australia, 18 million pounds in the United States, 15 million pounds in Brazil, 11 million pounds in Argentina, and lesser amounts in other countries. The total foreign holdings of British investors for 1913 he placed at 515 million pounds sterling in Canada, 378 million pounds in India and Ceylon, 370 million pounds in South Africa, 319 million pounds in Argentina, and 754 million pounds in the United States.

At the outbreak of the war, Canada was thus the principal recipient of the new investment funds from Great Britain (the chief investing nation of the world at that time) and, with the exception of the United States, Canada had more British investments than any other country of the world.

5. *United States Investors Enter the Field*

The Monetary Times Annual for 1914 estimates the United States investments in Canada as follows:

1909...........	$279 million
1911...........	417
1913...........	636

British investments in Canada for 1910 were estimated at 365 million pounds sterling.[3] Five years before the war American investments in Canada were less than one-sixth of those of Great Britain, while at the outbreak of the war they were about one-fourth of the British investments.

Even in 1914, however, the economic dependence of Canada upon the United States was considerable. While the bulk of her exports went to the British Isles, the bulk of her imports came from the United States. Thus in 1913 Canadian exports of Canadian produce totalled $356 million of which nearly

[1] "Annals," v. 68, p. 217.
[2] Ibid., p. 29.
[3] Ibid., p. 218.

half ($170 million) went to the United Kingdom and $140 million to the United States. In the same year Canada imported goods to the value of $671 million, of which nearly two-thirds ($437 million) came from the United States, while only $139 million came from the United Kingdom.[1] Thus Canada was borrowing extensively in Great Britain and using a part of the money to pay for the goods that she was buying in the United States.

Meanwhile two other movements of importance were taking place. Farmers from the Middle West were migrating into the Canadian wheat belt, while business houses from the United States were establishing branch plants and branch offices in the principal Canadian business centres.

6. *The Effects of the War*

The war increased the demand for Canadian goods. Canadian exports were $377 million in 1913 and $1,179 million in 1917.[2] These exports consisted in part of food and raw materials but they also represented a very great increase in the manufacturing industry. Thus the steel production of Canada was 743 thousand gross tons in 1914 and 1,695 thousand gross tons in 1918;[3] exports of cotton fabrics were 356 thousand yards in 1914 and 846 thousand yards in 1917; exports of drugs and chemicals, $1,695 thousand in 1914 and $9,164 thousand in 1917; exports of woollens in 1914, $81,555, in 1917, $725,148.[4]

The amount of capital invested in Canadian manufacturing industries increased from $1,959 million in 1915 to $3,230 million in 1919.[5] Similar expansion took place in mining, power development and other enterprises requiring large capital investments. During these same years Canada was floating war loans and making other unusual capital demands upon her population.

[1] "Canada Year Book," 1922–23, pp. 474–5.
[2] Ibid., p. 470.
[3] "Mineral Industry," 1923, p. 355.
[4] "Canada Year Book," 1918, pp. 308–316.
[5] Ibid., 1922–23, pp. 415–416.

Capital, in sufficient volume to meet this demand, was not available in Canada. It could no longer be imported from Great Britain because of the pressure of war demand there. There was only one source from which it could be readily derived and that was the United States. By 1919 the net flow of the United States capital into Canada was estimated at $220 million, and for 1920 it rose to $325 million.[1] Ingalls estimates that in 1920 the total of American capital in Canada was about $1,800 million as compared with $279 million in 1909 and $636 million in 1913. Here was an increase of more than six-fold between 1909 and 1920 and of nearly three-fold between 1913 and 1920.

Following the war, in the spring of 1920, a period of industrial depression set in, which gave the United States investors new opportunities to penetrate the Canadian field. The disorganization of European economic life rendered continental investments uninviting. The evident stability of industrialism in Canada provided an unusually strong incentive for United States economic expansion in that direction. The Canadians themselves were forced to call for this assistance because, like the business men in every other country, they had expanded at an exceptionally rapid rate during the war and with the depression of 1920 many of them were caught in a position where they could not meet their obligations. Consequently they were forced to rely upon financial assistance from the strongest financial centre in their neighbourhood, namely New York. Then too, with the cessation of the war demand, many of the newly established manufacturing industries found themselves without a market for their product and were forced either to close down completely or else to make terms with American banking interests that would carry them over the period of depression.[2] The American Economist states that between 1920 and 1923 the per cent of Canadian manufacturing controlled in the United States increased from about 50 per cent to about 60 per cent. According to the editor of the Economist this was

[1] Ingalls, "Wealth and Income," pp. 61–2.
[2] "American Economist," v. 71, pp. 77–8.

due in part to the failure of Canadian investors to hold their economic position in the face of hard times and in part to the rapid movement of the United States manufacturers to establish plants in Canadian territory.

7. *Nationality of Canadian Capital*

Before the war, the bulk of imported Canadian capital was British. At the end of the war—certainly by 1920—the total volume of United States capital in Canada was probably equal to the total volume of British capital in Canada. An article by W. L. Mackenzie King[1] states that: "It was estimated in 1920 that the investments of the United States in Canada stood at one billion 272 million 850 thousand, the chief items being $714 million in bonds, $150 million in branch industries, $94 million 276 thousand in insurance company investments, and $197 million in the timber mills and mines of British Columbia." In the same article, Mr. King writes: "Before the war and during the early years of the war British investments in Canada were far in excess of those of the United States. Today, however, the banking authorities in New York affirm that there is as much American as British money invested in Federal, provincial, municipal and industrial securities."

Manufacturing capital is still controlled by Canadians, but the United States has outstripped British investors in this field. As far back as 1918, 34 per cent of Canadian industrial stocks were owned in the United States.[2]

Estimates of British and United States investments in Canada for 1923 are:[3]

	United States Capital	British Capital
	(in millions of dollars)	
Railways	$425	$850
Government and Municipal bonds	701	456
Industries		
Forestry	325	60
Mining	235	100

[1] "Manchester Guardian Commercial," v. 7, p. 370.

[2] Canada, Com. Int. Ser., "Canada as a Field for British Branch Industries."

[3] "Financial Post Survey," 1925, p. 195.

	United States Capital (in millions of dollars)	British Capital
Fisheries	$ 5	$ 3
Public Services	137	116
Other industries	540	145
Mortgages and Land	75	185
Banking and Insurance	35	80
	2,478	1,995

The same figures are summarized and contrasted with 1918:

Outside Investments in Canada (in millions of dollars)

	1918	%	1923	%
Great Britain	$1,860	77	$1,995	42
United States	417	17	2,478	52
Other	140	6	323	6
	$2,417	100	$4,796	100

8. *Canadian Bond Sales*

The rapid movement of United States capital into Canada is well illustrated by the Canadian bond sales during the past fifteen years. In 1910 one-sixth of the Canadian bonds were marketed in Canada, a negligible number in the United States and the balance in Great Britain. During the years which followed the outbreak of the war, the volume of bonds marketed in Canada and in the United States steadily increased while the British market for Canadian bonds has been practically eliminated.

Summary Bond Sales in All Markets [1]
1910–1924 (figures in millions of dollars)

Year	Sold in Canada	Sold in United Kingdom	Sold in United States	Total
1910	39.3	188.1	3.6	231.0
1911	44.9	204.3	17.6	266.8
1912	37.7	204.2	30.9	272.9
1913	45.6	277.5	50.7	373.8
1914	32.9	185.9	53.9	272.9
1915	114.3	41.2	178.6	335.1
1916	102.9	5.0	206.9	356.9
1917	546.3	5.0	174.7	726.0

[1] "Monetary Times," v. 74, no. 2, p. 80.

Summary Bond Sales in All Markets (continued)
1910–1924 (figures in millions of dollars)

Year	Sold in Canada	Sold in United Kingdon	Sold in United States	Total
1918	727.4	14.6	33.3	775.4
1919	705.4	5.1	199.4	909.9
1920	101.8	—	223.0	324.9
1921	213.3	12.2	178.1	403.6
1922	250.2	—	242.2	492.4
1923	427.9	2.4	84.5	514.8
1924	336.8	3.6	239.5	579.9

Another significant aspect of the sale of bonds is provided by Canadian state and municipal financing. The Federal Reserve Board [1] lists the Canadian state and municipal loans then outstanding in the United States. The total number of loans is 189. The total amount is $233,964,244. The largest (Province of Quebec) is for $7,000,000. The smallest (Prince Rupert, B. C.) is for $2,500. They include water, school, road, light and power, sewer, and other bonds. Six of the loans were floated in 1913 and 1914; 58 in 1915 and 1916; 16 in 1917 and 1918, and 49 in 1919 and 1920.

9. *Branch Plants in Canada*

No complete study has been published showing the number of United States branch plants in Canada. G. W. Austen [2] states that "There are six or seven hundred openly known branches of American industries in Canada, such as the International Harvester, the Canadian General Electric, the General Motors, but there are hundreds of companies with Canadian names, Canadian directorates, and supposedly Canadian management that, in reality, are financially controlled in New York, Chicago, Boston, Pittsburgh, or other centres."

The Canadian Commercial Intelligence Service [3] notes the rapidity with which United States capital has penetrated the Canadian field. "During the calendar years 1919 and 1920 the influx of industries became more pronounced than ever before.

[1] U. S. "Federal Reserve Bulletin," v. 7, pp. 945–7.
[2] "American Economist," v. 71, p. 77.
[3] Canada, Com. Int. Ser., supra, p. 117.

For example, during these years in Toronto alone there were established 46 additional U. S. industries, as compared with 18 Canadian and 4 British." A. G. Sclater of the Union Bank of Canada puts the number of United States branch plants in Canada at "over seven hundred" and "the number is increasing yearly." [1]

The economic position occupied by the United States business interests in Canada is thus summarized by F. S. Chalmers.

> "The United States owns one-third of all the industries in Canada and one-third of all the producing mines; it owns a large part of the timber resources not vested in the Crown, and has extensive interests besides in Canadian water powers, real estate and other assets. Investors in the United States hold, besides, a third of all the bonds issued by Canadian provinces, a third of all the debentures issued by Canadian municipalities, and are developing an increasing interest in the bonds of the Dominion Government. . . .
>
> "British investments in Canada are, roughly, two billion dollars, which is less than the pre-war figure by a small fraction. United States investments in Canada may be accepted as having now definitely passed that mark and are close to two and a half billions. . . .
>
> "Strong imperialists in Britain may 'view with alarm' the displacement of British ownership of Canadian enterprise by United States ownership. But protests or discussions would be futile. Capital knows no allegiance to nationality. . . . The investment possibilities of Canada, regardless of boundary lines or political affiliations, have been the underlying factors in the movement." [2]

10. *The Technique of Peaceful Economic Penetration*

Abundant resources, parallel economic and social development and the proximity of the Canadian field, all combine to make Canada the logical depository for large volumes of United States capital. This capital migration which has been active for less than twenty-five years has, nevertheless, reached such proportions that many of the important Canadian economic activities are already under the financial domination of American banking and other business interests. Temporarily

[1] "Manchester Guardian Commercial Supplement," Sept. 18, 1924, p. 38.
[2] "Annalist," v. 22, p. 208.

the influx of American capital into Canada has been checked by the rapid decrease in capital demand due to the general world depression following the war. British investors have been quite generally eliminated from the Canadian field and ultimately important Canadian resources must almost inevitably be developed by importations of United States capital.

These capital migrations have taken place without the exercise of any force or threat of force. They have occurred just as logically as the migration of eastern capital into the frontier communities of the newly developing West. In this case the frontier lies to the north and the presence of a political boundary furnishes no serious obstacle. Despite changes in the political complexion of the governments at Ottawa and at Washington, the economic forces represented by these capital migrations continue to draw United States business interests into the Canadian field.

II. *Economic Penetration under Government Control*

Economic penetration acquires a political aspect when capital is brought into a country under a special permit from the government. These permits range all the way from licenses to concessions, but in every case they establish a relation between the holder of the permit and the government which grants it. This is particularly true where the permit is for an unlimited or for an indefinite term. In that case, the holder of the permit is almost compelled to take such steps as are necessary to preserve friendly relations with the permit-issuing authority.

A good case in point is an executive decree granting to Swift and Co. the right to construct a pier in the port of La Plata. The decree is dated Buenos Ayres, June 22, 1918, and reads as follows:

"The Chief Executive of the Nation Decrees:

"Art. 1. The concession will have a precarious character, the Government having the right to declare it ended at any moment when it considers it convenient, without any right of complaint on the part of the concessionary company.

"Art. 2. The work will be executed according to the details of the plans attached, and under the supervision of the General Direction of Hydraulic Works, which may introduce in the course of the same modifications which it deems necessary."

The other three sections of the decree provide that the concessionary company must pay the legal taxes and abide by the regulations in force, and must also pay the expense of the government inspection of the work.[1]

Similarly, the United Fruit Co., with docks at Sama, Cuba, applied to the Government for an authorization, legalizing these docks. A decree (No. 283) was therefore issued in much the same way that any license bureau in the United States would issue a license.[2]

12. *The Bolivian Loan of 1922*

Peculiarly exacting are the conditions which are ordinarily imposed when the bankers of a powerful country lend money to the government of a weaker country. Numbers of such loans have been made in the past by European bankers;[3] and during recent years United States bankers have entered the field. Most of the United States bank loans have been made to the governments of Latin-American countries. Many such loans carry guarantees which place the borrowing government at the mercy of the banking syndicate.

The Bolivian Loan of 1922 is an excellent illustration of the type of bankers' contract frequently met with in the case of Latin-American loans.

Authorization for a loan not to exceed $33 million was provided in the Bolivian law of May 24, 1922. The contract of May 31, 1922, entered into between the Government of Bolivia on the one hand and the Stifel and Nicolaus Investment Co., Spencer Trask and Co., and the Equitable Trust Co., on

[1] Argentina, "Boletin Oficial," June 27, 1918, pp. 608–9.
[2] Cuba, "Gaceta Oficial," July 17, 1906, pp. 421–2.
[3] Hobson, "Imperialism," p. 63 ff. Viallate, "Economic Imperialism," ch. III.

the other, provided for the issuance of a $26 million bond issue. The terms of the contract require the borrower to pay annually ten per cent of the original principal amount of issue, in monthly instalments. After paying the interest of eight per cent, the balance is turned into a sinking fund, which will be used for the repurchase of bonds after May 1, 1938. The issue matures May 14, 1947. The bonds are exempt from present and future Bolivian taxation.[1]

As a guarantee that the loan of 1922 will be paid, both as to principal and interest, the Republic of Bolivia "affects and encumbers with a first lien or pledge and charge in favour of the Trustees, the following shares of stock, funds, revenues and taxes as security for the full payment of the principal, premium and interest of the Bonds and all other expenses and amounts required for or incident to this Contract or to the service of the loan:

a. "All of the shares not less than 114,000 of the Banco de la Nacion Boliviana belonging to the Republic and which the Republic represents are sufficient at present to control said Bank." The Republic agrees to deliver to the Trustee under the contract either bearer certificates or certificates of stock "representing said shares." Should the capital stock of the Banco de la Nacion be increased at any time during the life of the loan, "the Republic shall acquire such proportion of additional shares as shall be necessary for said control; the shares so acquired shall immediately thereafter be pledged as security for the loan." Thus the control of the Bolivian National Bank is assured to those who are administering the loan.

In addition to these shares of the bank stock, the Republic pledges, as security for the loan:

b. All revenues representing dividends on these shares of stock.

c. The tax upon mining claims or concessions.

d. Revenues from the alcohol monopoly.

[1] U. S. "Trade Information Bulletin," no. 194, pp. 13-15. Bolivia; Hacienda, "Memoria," 1922, pp. 41-140.

e. Ninety per cent of the revenue received by the Republic from the tobacco monopoly.

f. The tax on corporations other than mining and banking.

g. The tax upon the net income of bank.

h. The mortgage tax.

i. The tax on the net profits of mining companies.

j. All import duties.

k. All export duties.

l. All funds, revenues, and taxes now or hereafter allocated by special laws to the construction of the Potosi-Sucre Railroad.

m. First mortgages and liens upon all the properties and earnings of the Railroads constructed from Villazon to Atocha and from Potosi to Sucre, including their franchises and other property and their net earnings.

Should the railroads above mentioned be sold as a result of the foreclosure of the mortgage, "the purchaser shall have the right to operate the said railroads for a period of 99 years from the date of such purchase" and the company that is organized to operate the railroads "as also the entire business and property thereof, shall, in respect to said railroads be free from taxes and imposts of all kinds."

As a further guarantee, the Republic agrees not to contract any external loan prior to Dec. 5, 1924, without the consent of the Bankers, and after that time, "and so long as any Bonds of the present loan shall remain outstanding," the Republic will not contract any further loans unless, for two years immediately preceding such a proposed loan, the revenues pledged to the service of the present loan shall have produced annually "at least one and one-half times the amount required for the service of the present loan," and unless, during those years the Republic shall have raised enough revenue to meet all of its ordinary general expenses, without borrowing or without selling capital assets.

These provisions place in the hands of the loaning Bankers the virtual control of the Bolivian National Bank, the property and revenues of certain Bolivian railroads, and the revenues of the Republic, at the same time practically precluding additional loans during the life of the present loan.

13. *The Fiscal Commission*

For the practical administration of the provisions contained in the Bolivian Loan Contract, a Permanent Fiscal Commission is provided, consisting of three members. "The President of the Republic shall appoint the three Commissioners; of these, two to be appointed upon recommendation of the Bankers." These two members of the Commission, recommended by the Bankers, may be removed "at any time, at the request of the Bankers."

The Commission "shall act by majority vote; and shall elect as its chairman and Chief Executive one of the two Commissioners who shall have been recommended by the Bankers."

This Bankers' representative, so long as any bonds of the loan remain outstanding, "shall be elected a member of the Board of Directors of the Banco de la Nacion Boliviana, and the Republic shall take such action as may be necessary to secure his election and continuance in office as such."

Section 3 of this article provides that "the total cost of the Commission shall constitute a part of the service of the Loan and shall be included in the amounts to be deposited monthly in the Banco de la Nacion Boliviana."

As for the duties of the Commission, they are simple and inclusive. So long as any bonds of the loan remain outstanding, and beginning not later than August 1, 1922, "the collection of all taxes, revenues and income of the Nation shall be supervised and fiscalized by the Permanent Fiscal Commission, the creation of which has been authorized by Law of March 27, 1922."

These provisions for the organization and functioning of the Permanent Fiscal Commission place the entire revenue of the Republic under the control of three men, two of whom are selected by the loaning Bankers, and one of whom, as Chief Executive, sits on the Board of the Bolivian National Bank and helps to determine its policy. The costs of this Commission are paid out of the revenues which it controls.

The Permanent Fiscal Commission holds the economic key to the life of the Republic and the Bankers control the Commission. As yet there has been no default, and no political issues have been raised, but this loan contract ties the representatives of the loaning Bankers into the heart of Bolivian political life by placing in their hands the control of Bolivian public revenues. Should a default take place, the members of the Commission automatically become the central figures in the Bolivian political world, and the Loan of 1922 takes precedence over all other public considerations. There is, in this relation, an international issue of the first magnitude between the Government of the United States and the Government of Bolivia. While the issue may never arise, the fact remains that representatives of an American banking syndicate are administering the finances of a sister Republic.

14. *Economic Penetration and Political Interference*

There is no boundary line between economic penetration and political interference. Modern imperial practice calls upon governments to "protect life and property." When, therefore, a nation like the United States reaches the stage at which its property owners acquire extensive economic interests outside the nation's boundaries, the political protection of these interests follows as a matter of course.

Investments in Canada, although they are more extensive than United States investments in any other foreign territory, have never as yet involved serious political issues. Latin-American investments, on the other hand, have given rise to various diplomatic tangles, resulting in the use of the army and the navy in a number of instances.

Although it is impossible to name the point at which economic penetration will lead to political interference, the history of modern imperialism suggests that such a point is quite generally reached. And certainly recent United States relations with Latin America indicate that the United States is as likely to reach the interference point as is any other imperial power.