

WORLD WAR I

Canada's period of great expansion, 1904 to 1914, had already terminated at the outbreak of World War I. The country's economy was in the throes of readjustment and depression, and the time had arrived to utilize the productive facilities built up and financed by foreign borrowing.

Canada needed a surplus of merchandise exports over imports that would be sufficient to meet external interest and dividend payments on borrowed capital. This change from capital expansion to production of export staples implied a transfer of labour, with employment in construction replaced by employment in production. Pending the transition there were considerable dislocations in Canada, which were intensified by the outbreak of war.

Canada entered on an era of war prosperity. Its productive resources were primarily employed to supply exports of wheat, flour and other foodstuffs, explosives, shells and other munitions, and to build ships to transport them. During the war period its main exports more than doubled in volume and increased more than four times in value.

Canada's military record in World War I is well known, but on the production front the story was less glorious. Whereas war expenditures at the present time are running close to 50% of national income, war expenditures both at home and abroad reached only 10% of national income in the last year of the war. Even when British expenditures in Canada through the Imperial Munitions Board are added in, war outlays in Canada never reached 20% of national income. While reliable figures of total production are not available, it would appear that it did not increase more than 10% during the war period. In this war industrial production has already increased by 160%.

Manufacturing acquired a new and important position during World War I. Before that probably less than 7% of the total net value of all manufactured goods produced in Canada was sold abroad, whereas during the 1914-18 period the percentage exceeded 40%. The significance of this change was all the greater because exports from 1916-18 did not appreciably reduce the volume of manufactured commodities available for domestic consumption. The chief increases in manufacturing were iron and steel, pulp and paper and shipbuilding.

Canada emerged from World War I with a more closely integrated and more matured economy, international experience, proven strength of its own resources and potentialities, and a long-established unfavorable merchandise trade balance converted to a favorable excess of exports over imports. Canada's role in World War I was a worthy predecessor, and perhaps an ominous indication of the still more powerful role it would be able to assume in the present conflict.

BETWEEN TWO WARS

World War I was followed by a boom during which Canadian exports and imports both expanded in value. Imports showed a marked advance as a result of the inflated purchasing power of the population. Imports at \$1,240,100,000 for the fiscal year ended March 31, 1921, had the highest value in the country's history to that time.

After this brief boom the external trade of Canada, in common with that of every other country in the world, suffered a severe decline in both volume and value. Canada's total foreign trade reached the high point of \$2,450,600,000 in the fiscal year ending March 31, 1921, largely because of the continuation of excessive imports which tipped the balance \$29,700,000 on the deficit side. Consequently when the total trade figure fell to \$1,501,700,000 in the following year the effect was very marked, although actually a favorable balance of \$6,100,000 is recorded for the fiscal year 1922. From then on the value of Canadian trade gradually recovered and headed into a decade of prosperity. From 1925 to 1929 Canadian exports were predominantly agricultural. In that period it was largely because bountiful