The Canadian economy is such that the last factor is, unquestionably, the controlling factor on which increased productivity depends and on which, as a result, an increased standard of living depends.

Canada's economy is based on a comparatively high volume of exports, (19.7% of the G.N.P. in 1957), mainly of its primary and agricultural products. Unfortunately, however, its exports have to compete with the rest of the world on price and if its costs are too high, however much shouting we may do, we are just not going to sell our exportable surpluses and *less and less employment will be available from our exporting industries.*

At the same time, to assist its exports of primary and agricultural products, Canada has evolved over the years a very low tariff protection to its secondary manufacturing industries, which today have become a far greater potential provider of jobs than all the primary and agricultural producers put together.

The secondary manufacturing industry has, therefore, to compete in its own internal market with producers from all over the world, with very little protection. To the extent that our wage levels are excessive in relation to the lowest of our competitors, we shall lose a larger and larger proportion of our own market, to say nothing of any foreign markets we may have had in the past. This trend has been going on for some time and is reflected in the declining percentage of the Canadian market captured by Canadian secondary industries, particularly in durable goods. As long as this situation continues, we will also be faced with *less and less employment available from our secondary manufacturing industries.*

The combination of the loss of export market volumes and the loss of internal market volumes, partly by reason of higher wages than we can afford, and partly by reason of reduced markets over the last two years of recession, is clearly reflected in Chart 1.

This Chart demonstrates what has caused the price increases during the recent year and a half or two-year recession which is that, while wages have increased 10.5% over this period, productivity declined 5.8%. This productivity did not decrease because of lack of effort on the part of the worker, or because of lack of capital equipment provided by Management to make increased productivity possible. It decreased because of the decrease in the available market. Since wages did not decrease, but increased substantially during that period, it is quite obvious that costs, and consequently prices, had to increase during this period of recession. This clearly illustrates the importance of volume of market on productivity.

There is an old argument that wages can be raised without affecting prices, if we simply cut down the returns to capital. How much scope is there for such action in Canada?

Few people realise that most of this country's national income comes in wages and salaries and only a little from dividends, returns and so forth. If we examine the figures published by the Dominion Bureau of Statistics, we find that in 1958 the total of all personal incomes amounted to $21,435 millions (excluding Military Pay and Allowances and Transfer Payments). Of this sum, $18,897 million was received in the form of wages and salaries, net income of farm operators from farm production and net income of non-farm unincorporated business. That is $18,897 million, about 8/9ths of the total took the form of income from effort.

The remaining 1/9th, $2,538 million, was "unearned" income in the form of interest, dividends and net rental income. Here, in this remaining 1/9th is the only room for enlarging wage payments and shrinking dividends. By raiding it wage earners could produce little benefit, and would cause themselves tremendous damage.