

When in 1936 it was realized that a heavy programme of expenditures was necessary to equip the Canadian defence forces, the Government set up an interdepartmental committee of senior officials, under the Chairmanship of Dr. O.D. Skelton, Under Secretary of State for External Affairs, to study the question of profit control.

Almost at the same time there arose in the Department of National Defence a difference of opinion among senior members of the staff with respect to the advisability of establishing, in connection with the Government Arsenal at Quebec, a system of state manufacture of a wide variety of weapons and other technical equipment. Certain officials advocated the establishment of state arsenals, which it was ascertained would cost approximately \$30,000,000. Other officials contended that this programme would involve both delay and unnecessary capital expenditures. The issue was laid before the full Cabinet by Mr. Mackenzie, and the decision was taken that manufacture in state-owned plants should be followed with respect to products for which there would be a continuous demand over the years. The Government decided, however, that it was not economic to make a large capital expenditure on plants which would operate for only a few years and then lie idle.

W.L.M. King Papers, Memoranda and Notes, 1933-1939
(M.G. 26, J 4, volume 159, pages C113389-C114137)

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