

in so short a space of time so sharp a contraction in production. Under ordinary circumstances, Canadian trade and industry would have shown a similar, if less intense, recession. But as a matter of fact, while the rapid increase in Canadian business activity was slowed down somewhat, the cumulative increase in war orders and the recovery in Canadian exports to Britain, which had been abnormally low in October and November, largely offset the influence of the United States recession. Business activity in Canada flattened out in February and March but generally did not recede. In recent weeks the tempo of United States business has increased sharply and there are already indications that Canadian exports to that country are responding to a more active market. The stimulus to our business which has resulted from these exports is supplementing and reinforcing the expansion due to the acceleration of war expenditures here.

The record of the flow of business which I have outlined is clearly visible in the index of the physical volume of business in Canada. That index stood at 125 in August last, had increased to 139 in January, and stood at 137 in March-April. The increase over the same period in industrial production taken by itself was even more pronounced. A definite increase in consumers' incomes was shown in the rise of retail sales which by December had reached the highest figure since 1930, and, if allowance were made for to-day's lower price level as compared with 1930, retail sales last December would probably be found to have been the highest on record.

These retail sales have continued to be considerably higher than last year. Each month since last September, sales of automobiles have been greatly ahead of the corresponding month of the previous year. For the first four months of war, there was a marked hesitation in construction activity but since January construction has increased and through April and May the value of contracts let was 76 per cent above the value for the same two months of 1939.

According to the preliminary estimate of the Dominion Bureau of Statistics, over one hundred thousand idle wage earners had been drawn into employment during the twelve months to April, 1940. The fall in the number of employable persons on urban relief rolls has lagged behind this increase in employment, but since last November the numbers on urban relief rolls have been lower than those for the corresponding months of the previous year and on the whole the reduction has been accelerating. We have no comprehensive statistics which would indicate changes in the amount of the incomes of wage and salary

[Mr. Ralston.]

earners. There are however, abundant indications that as a result of elimination of short time, earnings for overtime work, an increase in the number of earners per family and increases in wage rates, total wage and salary earnings are rising rapidly.

These are days when no one can predict what the future will disclose. However, if there is no serious interruption in our export trade, the increasingly great numbers of men and amounts of materials being employed in war production will lead to a substantial increase in our national income, that is to say, the aggregate of the incomes of all the people of this country. The heightened tempo of business in the United States will also make an important contribution to the same end.

On the basis calculated by the royal commission on dominion-provincial relations our national income for the calendar year 1939 was in the vicinity of \$3,800 million. Using the same method of computation we consider that our national income for the fiscal year 1940-41 will not likely be less than \$4,500 million. We must see to it that by far the greater part of that increase is used for war purposes.

I need hardly say that our war effort is not in any sense to be limited by such financial calculations or by what we can comfortably accomplish. We must make the maximum effort of which this country is capable. Financial provision can be made and will be made for whatever it is physically possible for us to produce or to procure in the way of war services, supplies and materials. The limits of our effort are not fiscal; if there are any such limits they are physical, mental and moral—by that I mean the physical limits of our resources and the mental and moral capacity of Canadians to bear burdens and make sacrifices.

However, in obtaining whatever it is possible for our man-power, equipment and resources to produce or procure, it is certainly wise to adopt the most intelligent means of financing that effort. Plans already laid and approved by this house call for defence expenditures of \$700 million. As I shall later explain, such a figure can only be provisional and not in any sense a limit. What concerns us this afternoon is to choose and determine what seem the wisest financial methods of paying for the maximum effort which is physically possible.

If an appropriate financial policy is not followed the ultimate result will inevitably be that the government will be frustrated in its attempt to procure goods for war purposes by the competition of consumers who seek to spend their increased buying power to satisfy civilian wants. In that event, also,