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War Time Expansion Was Largely a Delusion

Figures Which Seem to Indicate Growth More Often Really Show Reduction in Business—Currency Inflation and Decreased Purchasing Power of Gold Are Responsible—A Comparison of Some Trade, Banking, Insurance and Other Figures

IT was easy for business to expand during the war. Any one who could acquire a little property, whether it be a factory, a house or a motor car, found his wealth increasing of its own accord. Assets which were physically unchanged could be written up in value at the end of each year, because the dollar, in terms of which they were valued, was going down. But the United States, and even the Canadian dollar, are among the soundest units of currency in use today. The greater depreciation of the pound, of the franc, the lire, the mark and the rouble have expanded nominal wealth in European countries to amazing totals.

The public, which at first was dazzled by the apparent buoyancy of personal and public finances during the war, soon found that the apparent prosperity was visionary. Money was plentiful but its purchasing power was daily becoming less. Material goods to satisfy human wants were becoming scarcer, and the real income of the average individual was decreasing. Nominal profits and wages, it is true, increased, but few companies or wage-earners found themselves making any real progress. Meanwhile investors, salaried employees and others with a fixed money income found themselves slipping back at a disheartening rate. It was easy to cite figures of national prosperity, but difficult to convince the individual.

In Canada the purchasing power of the dollar is measured fairly well by the index number of wholesale prices, compiled monthly by the department of labor. The number for May, 1920, was 356.6, compared with 136.3 for May, 1914. This is an increase of 161 per cent. over the war and post-war period. It represents the weighting which must be applied to the present Canadian dollar to find how many of them would buy what one dollar would in 1914; that is, \$1.61 of our present money will buy the same amount of a representative group of commodities as would \$1 in 1914. When this decline in purchasing power is applied to some of the figures commonly quoted as showing expansion, actual decreases are found, for one dollar at present is the equivalent of no more than thirty-eight cents in 1914.

A correct comparison, therefore, of monetary figures for the year 1914 requires that this decline in the real value of the dollar be taken into consideration. As most of the figures used below are for the calendar years 1914 and 1919, or for financial years ending early in 1915 and 1920, the best index numbers to use as a basis will be those for December, 1914, and for December, 1919, coming at the end of the respective years or during them. These numbers are respectively 137.3 and 322.7, showing an increase of 135 per cent.; in other words, the dollar in December, 1919, would buy just about what 42.5 cents would buy in December, 1914.

Trade figures have expanded greatly during the past six years. When the present figures are reduced in proportion to the reduced purchasing power of the dollar, however, our actual trade has contracted, as the following comparison of figures for the fiscal years ended March 31, shows:—

	1914	1920	(weighted).
Imports	\$ 619,065,728	\$ 1,064,516,169	\$ 453,000,000
Exports	455,437,224	1,286,658,709	547,000,000
Total	1,074,503,052	2,351,174,878	1,000,000,000
Exp. to U.K.	215,253,969	489,151,806	208,000,000
Imp. from U.K.	132,070,362	126,269,274	54,000,000
Exp. to U.S.	163,372,825	464,029,014	197,000,000
Imp. from U.S.	395,565,328	801,632,849	341,000,000

The trade figures for the fiscal year ended March 31, 1914, have been used in this comparison, as those for the year ended March 31, 1915, were abnormally low. The index number changed very little between December, 1913, and December, 1914. The comparison shows that after the 1920 dollar has been reduced to its 1914 equivalent, exports, including exports to the United States, have really increased. Our total trade, and our imports, have all been reduced.

Banking Business has Contracted

A similar comparison of the more important banking figures gives the following results:—

	March, 1914.	March, 1920.	(weighted).
Circulation	\$ 96,848,384	\$ 231,220,770	\$ 98,000,000
Demand deposits ...	345,590,642	657,412,028	280,000,000
Savings deposits ..	646,143,604	1,197,719,570	510,000,000
Deposits abroad ...	114,523,736	318,277,881	135,000,000
Current loan in Canada	838,381,265	1,322,267,030	562,000,000
Current loans elsewhere	53,279,411	183,642,658	78,000,000
Call loans in Canada	69,088,240	128,233,210	55,000,000
Call loans elsewhere	145,218,223	205,202,133	87,000,000

A similar comparison of bank net profits shows:—

	1914.	1919.	(weighted).
Montreal	\$2,496,451	\$3,314,227	\$1,410,000
Commerce	2,668,233	3,074,892	1,308,000
Royal	1,886,142	3,423,264	1,456,000

It is evident, therefore, that of the above principal banking accounts, only deposits and current loans abroad have grown to any extent, and there has been a slight increase in circulation. As regards profits, the real value of these is greatly reduced, and even more than as indicated above because the 1919 profits include those of some banks absorbed since 1914.

Insurance Also Reduced

Insurance is another branch of finance which has expanded greatly. As has been pointed out already in these columns, however, it is doubtful if it has kept pace with the changed conditions. The comparison below would indicate that it has not:—