

provided for us in terms of better and more secure living. If we must devote a great deal of our labour to making guns and military supplies, we shall have to do without whatever would have been produced in their place in peace-time.

We can, however, lighten the burden imposed by this real sacrifice if we expand our total employment and production. To the extent that we can put our unemployed men and equipment to work producing what we need for war, we will have to divert less resources away from normal uses. In many cases we may need to use on war work specialized men and equipment which are already employed, but we can cut down the real costs involved in doing so if we can replace them in their normal work by somewhat less skilled labour or less specialized equipment which may now be unemployed. We can reduce the cost further by developing more skilled labour, by better organization and by more effective utilization of all our resources. Conditions of war will not only demand but probably also make possible the full utilization of our man-power and equipment. The urgent demands of ourselves and our allies for supplies of all kinds and the will of a united people to win the war, even at the cost of some regimentation which might not be acceptable to a democratic people in peace-time, will provide that impetus to expansion of production and capital investment which has been lacking in these recent years of uncertainty and fear.

In this connection we recall how rapidly Canadian business responded to the needs of our own and allied governments during the last war. Industrial capacity was rapidly expanded and at the peak one-third of our manufacturing industry was engaged on war orders for other countries. Similarly agriculture and the mining industry received powerful stimuli from the urgent demands of allied governments for foodstuffs, metals and minerals. Our exports increased enormously—from 432 million dollars in 1914 to 1,540 million dollars in 1918. Exports of shells and explosives alone rose from a few million dollars in the first year of war to 390 million dollars in 1917 and during the war period approximately one billion dollars worth of shells and explosives were shipped overseas. The new wealth of resources and capacities which the necessities of the conflict developed in Canada was an important offset to the enormous cost and wastage of the struggle.

Whatever such offsets may be, it is important to emphasize that, as I have already said, the real costs of war must come out of

(Mr. Ilsley.)

current production, out of the goods and services produced during the war. It is true that some stocks of military supplies may be on hand at the beginning of a war, but their importance is slight for a war of any duration. Borrowing abroad may enable a belligerent country to supplement its current production with an excess of imports but such borrowing is usually difficult in war time and leaves the country with the need of making real payments abroad after the war is ended. Taking it by and large the fact is that the shells that are fired and the other goods and services that are used up in the course of a war must be produced during the period of the war. This being the case, it follows that, and I repeat it again, in real terms, namely, in terms of the loss to the nation of this production, a war is paid for substantially during its duration. Obviously this simple fact has very important implications for any program of war finance.

There may be some who feel that borrowing at home may enable us to shift part of the burden to the next generation. Ill-considered and excessive domestic borrowing, of course, may add unnecessarily to the burdens of certain members of the present and post-war generations who will find it necessary to pay interest to those of their fellows who may be bondholders. But the war generation does not thereby shift its own real burden on to posterity because borrowing at home does not enable us to borrow from future production the physical goods and services that are used up during a war. Borrowing at home is merely one means of diverting our production into war requirements, a means which is less painful at the time but which ultimately requires a somewhat greater resort to taxation. When we borrow a hundred dollars from one of our citizens and spend it on war supplies, he is thereby prevented from spending that hundred dollars on his own consumption or investing it to enable someone else to spend it on some kind of capital production. In future years we will have to pay him not only the principal but interest as well. Obviously we could accomplish the same diversion by taxing the hundred dollars away from him. Diversion by this method alone, that is to say, by a 100 per cent taxation or pay-as-you-go policy would seem at first sight to represent the ideal policy of war finance; in principle it would appear to be the most logical, the most equitable, the least likely to create disturbances and dislocations. But, in the first place, this takes no account of the desire, indeed the necessity, of individuals making some savings to provide for a rainy day, and an effort to take so much in taxation that individual savings would be practically wiped out, would