



Carnegie Endowment for International Peace

DIVISION OF ECONOMICS AND HISTORY

JOHN BATES CLARK, DIRECTOR

PRELIMINARY ECONOMIC STUDIES OF THE WAR

EDITED BY

DAVID KINLEY

Professor of Political Economy, University of Illinois
Member of Committee of Research of the Endowment

EARLY ECONOMIC EFFECTS OF THE
WAR UPON CANADA

BY

ADAM SHORTT

Chairman of the Board of Historical Publications
Formerly of the Canadian Civil Service Commission

NEW YORK

OXFORD UNIVERSITY PRESS

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INTRODUCTORY NOTE BY THE DIRECTOR

THE Division of Economics and History of the Carnegie Endowment for International Peace is organized to "promote a thorough and scientific investigation of the causes and results of war." In accordance with this purpose a conference of eminent statesmen, publicists, and economists was held in Berne, Switzerland, in August, 1911, at which a plan of investigation was formed and an extensive list of topics was prepared. An elaborate series of investigations was undertaken, and, if the war had not intervened, the resulting reports might have been expected, before the present date, in printed form.

Of works so undertaken some aim to reveal direct and indirect consequences of warfare, and thus to furnish a basis for a judgment as to the reasonableness of the resort to it. If the evils are in reality larger and the benefits smaller than in the common view they appear to be, such studies should furnish convincing evidence of this fact and afford a basis for an enlightened policy whenever there is danger of international conflicts.

Studies of the causes of warfare reveal, in particular, those economic influences which in time of peace bring about clashing interests and mutual suspicion and hostility. They show what policies, as adopted by different nations, reduce the conflicts of interest, inure to the common benefit, and afford a basis for international confidence and good will. They tend, further, to reveal the natural economic influences which of themselves bring about more and more harmonious relations and tend to substitute general benefits for the mutual injuries that follow unintelligent self-seeking. Economic internationalism needs to be fortified by the mutual trust that just dealing creates, but just conduct itself may be

favored by economic conditions. These, in turn, may be created partly by a natural evolution and partly by the conscious action of governments; and both evolution and public action are among the important subjects of investigation.

An appeal to reason is in order when excited feelings render armed conflicts imminent; but it is quite as surely called for when no excitement exists and when it may be forestalled and prevented from developing by sound national policies. To furnish a scientific basis for reasonable international policies is the purpose of some of the studies already in progress and of more that will hereafter be undertaken.

The war has interrupted work on rather more than a half of the studies that were in progress when it began, but it has itself furnished topics of immediate and transcendent importance. The costs, direct and indirect, of the conflict, the commercial policies induced by it and, especially, the direct control which, because of it, governments are now exercising in many spheres of economic activity where formerly competition and individual freedom held sway, are phenomena that call, before almost all others, for scientific study. It is expected that most of the interrupted work will ultimately be resumed and that, in the interim before this occurs, studies of even greater importance will be undertaken and will be pushed rapidly toward completion.

The publications of the Division of Economics and History are under the direction of a Committee of Research, the membership of which includes the statesmen, publicists, and economists who participated in the Conference at Berne in 1911, and two who have since been added. The list of members at present is as follows:

EUGÈNE BOREL, Professor of Public and International Law in the University of Geneva.

LUJO BRENTANO,¹ Professor of Economics in the University of Munich; Member of the Royal Bavarian Academy of Sciences.

¹ Membership ceased April 6, 1917, by reason of the declaration of a state of war between the United States and the Imperial German Government.

INTRODUCTORY NOTE BY THE DIRECTOR v

CHARLES GIDE, Professor of Comparative Social Economics in the University of Paris.

H. B. GREVEN, Professor of Political Economy and Statistics in the University of Leiden.

FRANCIS W. HIRST, London.

DAVID KINLEY, Professor of Political Economy in the University of Illinois.

HENRI LA FONTAINE, Senator of Belgium.

HIS EXCELLENCY LUIGI LUZZATTI, Professor of Constitutional Law in the University of Rome; Secretary of the Treasury, 1891-93; Prime Minister of Italy, 1908-11.

GOTARO OGAWA, Professor of Finance at the University of Kioto, Japan.

SIR GEORGE PAISH, London.

MAFFEO PANTALEONI, Professor of Political Economy in the University of Rome.

EUGEN PHILIPPOVICH VON PHILIPPSBERG,¹ Professor of Political Economy in the University of Vienna; Member of the Austrian Herrenhaus, Hofrat.

PAUL S. REINSCH, United States Minister to China.

HIS EXCELLENCY BARON Y. SAKATANI, formerly Minister of Finance; formerly Mayor of Tokio.

THEODOR SCHIEMANN,² Professor of the History of Eastern Europe in the University of Berlin.

HARALD WESTERGAARD, Professor of Political Science and Statistics in the University of Copenhagen.

FRIEDRICH FREIHERR VON WIESER,³ Professor of Political Economy in the University of Vienna.

The function of members of this Committee is to select collaborators competent to conduct investigations and present reports in the form of books or monographs; to consult with these writers as to plans of study; to read the completed manuscripts, and to inform the officers of the Endowment whether they merit publica-

¹ Died, June, 1917.

² Membership ceased April 6, 1917, by reason of the declaration of a state of war between the United States and the Imperial German Government.

³ Membership ceased December 7, 1917, by reason of the declaration of a state of war between the United States and Austria-Hungary.

tion in its series. This editorial function does not commit the members of the Committee to any opinions expressed by the writers. Like other editors, they are asked to vouch for the usefulness of the works, their scientific and literary merit, and the advisability of issuing them. In like manner the publication of the monographs does not commit the Endowment as a body or any of its officers to the opinions which may be expressed in them. The standing and attainments of the writers selected afford a guarantee of thoroughness of research and accuracy in the statement of facts, and the character of many of the works will be such that facts, statistical, historical, and descriptive, will constitute nearly the whole of their content. In so far as the opinions of the writers are revealed, they are neither approved nor condemned by the fact that the Endowment causes them to be published. For example, the publication of a work describing the attitude of various socialistic bodies on the subject of peace and war implies nothing as to the views of the officers of the Endowment on the subject of socialism; neither will the issuing of a work, describing the attitude of business classes toward peace and war, imply any agreement or disagreement on the part of the officers of the Endowment with the views of men of these classes as to a protective policy, the control of monopoly, or the regulation of banking and currency. It is necessary to know how such men generally think and feel on the great issue of war, and it is one of the purposes of the Endowment to promote studies which will accurately reveal their attitude. Neither it nor its Committee of Research vouches for more than that the works issued by them contain such facts; that their statements concerning them may generally be trusted, and that the works are, in a scientific way, of a quality that entitles them to a reading.

JOHN BATES CLARK,
Director.

EARLY ECONOMIC EFFECTS OF THE WAR
UPON CANADA



EDITOR'S PREFACE TO THE PRELIMINARY STUDIES OF THE WAR

THE following brief study of the early effects of the war upon Canadian industry, trade and finance, was prepared by the author, Dr. Adam Shortt, formerly of the Civil Service Commission of Canada, now Chairman of the Board of Historical Publications, to indicate in a general way the character of the extended study of the same subject which he is preparing for publication later. The chapter contains so much of interest and value to the people of our own country at the present juncture that it seemed proper to the Director of the Division of Economics and History and to the editor to publish it. It is the first of a series of preliminary studies on the effects of the war. It is the intention of the Endowment to prepare and issue in due time a comprehensive documentary and critical history of the war. Such a history, however, is a work of years and could not be prepared in time to be of immediate service to our people in their conduct of the war. Inasmuch as the experiences of the Allied countries already at war have valuable lessons for us, especially within the first year of our participation, it has been decided to issue a series of preliminary war studies, setting forth their experiences.

The effects of the war on the trade, the external policies of nations, and also upon their internal economic organization, will be far reaching. The cost of the war will be so great that expenditures upon measures promotive of welfare are likely to be long postponed. The programs of social betterment, legislation looking to the improvement of conditions of labor, the suppression of poverty, improvements in the conditions of employment of women and children, better health conditions, better

education, social health and life insurance, probably will all be delayed on account of the tremendous expenditures of the conflict. The probable necessary reorganization of public budgets to meet the burden of taxation will leave little income to apply to such projects. The whole world had reached a high state of expectation with reference to general social betterment, budgets were being constructed and financial systems were being molded with that in view. The war has dimmed the hopes of the reformer about these matters, and doubtless will make improvement of the conditions of living a harder problem than before.

For the cost of the war is to be reckoned not merely in destruction of wealth. It is draining the working power of the world, and is adding to the number less capable of taking care of themselves. It has increased the army of the maimed, the halt, the blind and the dependents, and has imposed upon all the rest of us the task of caring for them as a sacred duty and a debt of gratitude for the sacrifice which they have made for us. But the cost and the sacrifice we cannot stop to count now, for we have entered the war and must do our part to bring it to a successful conclusion. The realization of the staggering burden of the cost of the war will not prevent any one of the nations at war from continuing to do its part; but a study of this cost in all its bearings may have a sobering effect in years to come when peoples and rulers may perhaps contemplate war again. For that reason among the preliminary studies, which it is our purpose to publish, will be one or two on the cost of the war and its financial management.

A second subject needing serious study is the alleged trend toward Socialism. Socialists point with rejoicing to the vast extension of government control over, and participation in, industry on account of the war. In Great Britain the government is running the railroads and is virtually in absolute control of industry. The

railroad system is operated as a unit for the single purpose of securing efficiency in war production. Steel and munition factories, many in number and great in output, are entirely operated by the government. Thousands of other factories have been operated for some time under government control, although immediately by the owners. It is estimated that probably about seven million men and women are at present employed in industries under the control of the British government. Moreover, the government has entered the field of the middleman and is doing collective buying on a very large scale, just as we ourselves are.

Similar conditions prevail in France and in Italy. The government of Italy is said now to control in the neighborhood of 2,500 establishments, with approximately three million workers. In France the control of the government over industry is even more extended and intense. Even countries not in the war have found it necessary, on account of the disturbance of industry and the shortage of supplies of one kind and another, to undertake economic functions in character and extent hardly thought of hitherto.

The culmination of the whole process seems to be reached in the project for collective purchasing for all the Allies in the matter of metals, food and other articles.

On the steps which the United States has taken it is not necessary to enlarge. We are controlling the iron and steel industry, the coal business, the wheat market, and are reaching indirectly to the control of retail trade in a variety of articles.

These things are welcomed by Socialists as steps towards the permanent establishment of Socialism. Many other people look upon them with fear because they have the same belief. It is important, therefore, to study and discuss this trend and its aftermath.

In the opinion of the editor of this series, a distinction must be made between Socialism and mere state economic

activity, which may be called stateism. To be sure, the state, or, at any rate, the government in a socialistic state, is the active agent for carrying on the economic life of the people. But government activity of this kind is not truly socialistic unless the purposes and the methods of the government reflect the desires and the will of the people. An autocratic state might occupy its government quite as fully with the performance of economic functions as could be desired by any Socialist, but the resulting condition would not be one of Socialism. In short, the mere extension of government economic functions is not of itself the establishment of Socialism. Germany is commonly spoken of as a state which has gone far on the road to Socialism. Not so. Germany is an example of stateism. Her government has in a measure provided the conditions of economic welfare for all her people, but she has done so at the expense of their individual initiative and freedom. A minority—the ruling class—have determined what should be done for the rest; and that not primarily for the good of the rest, but in order that they might be more suitable, or useful, or available, for the purposes of the few. If such economic comfort were achieved as a result of the free action of the majority, it would be Socialism in the true sense. Even then, however, it is questionable whether the attainment of a larger economic comfort through Socialism would not entail a cost, in the sacrifice of freedom, that would be in the long run too great.

Whether the extension that is taking place now in the war will be socialistic, even if it is permanent, will depend, therefore, on the will of the people; for certainly the government of a democratic country cannot continue such economic activities against the will of the people. Now the great majority of the people of the country are willing to submit to inconveniences due to the extension of government functions in unusual lines to accomplish more effectively the specific purposes of the

war. It is more than doubtful whether they will submit to such inconveniences and interferences when the dangers of war have passed. Moreover, whatever efficiency is gained in the conduct of the war by the extension of the economic activities of the government, is secured very largely at the price of tremendous interference with ordinary business relations, economic conditions, and ways of living, such as the people of this country will probably not endure excepting under the stress of patriotic motives. In other words, in the opinion of many, the efficiency necessary to win the war is gained at a cost of interference in our ordinary economic life that will not be tolerated in time of peace. There is no more evidence today that the government performance of industrial and mercantile services will be more efficient in the future than it ever has been; or that it will even approximate to the efficiency secured by individual initiative. Government conduct of industries for the purpose of conducting a war efficiently is a very different thing from such conduct for the greatest service in the more diverse purposes of human life in times of peace. Indeed, what constitutes efficiency in the former conditions may be inefficiency in the latter.

As to the alleged efficiency of government operation of the railways, for example, we must remember that this efficiency is secured at a cost. Only those who are accustomed to use the railroads frequently have a suitable realization of the inconvenience and loss injected into private business by the coordination and cooperation which the war has made necessary for the purposes of the war. The business of the war is at present imperative, and must displace everything else. Efficiency in carrying it on must be attained without much regard to the cost involved in the disturbance of passenger and freight traffic for other purposes.

Those who are now managing these new activities of

the government are, in the main, so-called captains of industry who have built up under the system of individualism and competition the great structure now available for government use. There is no reason to think that their services would be readily available for such a purpose excepting in an emergency. Their experience, however, will undoubtedly give them a somewhat different outlook after the war, when the old order of things begins to return. It is to be hoped that they will have that higher point of view and broader outlook concerning the welfare of the public at large which, by establishing a higher ethical standard for business, will do away forever with the phases of capitalistic exploitation which have so justly drawn condemnation in the past.

It must be remembered, too, that if the government is to direct industry, it must direct labor. There is no reason to think that the workers of the country, whether organized or unorganized, are disposed to turn over to bureaucratic control the determination of important questions concerning their work and their welfare.

For these reasons it seems to the editor that the present trend does not necessarily indicate a tendency toward the permanent establishment of Socialism properly so-called, nor even a tendency toward a permanent extension of government participation in economic life. That there will be some such extension for a time at least is very likely, but the general result is just as likely to be the establishment of better standards in the conduct of privately conducted business. Excessive profits and other forms of exploitation will be better understood by the public; those who have been guilty of such practices will be more easily discovered, and their own point of view undoubtedly will be largely modified. In other words, the permanent result of our present activity is just as likely to be the conduct of business with larger emphasis of service to public welfare as an extension of direct government management and control.

A third line of study which is brought prominently to the attention of the world by the war is that of national economic independence. The war had not been going on long before it became evident to some of the warring nations that they had allowed themselves to become completely dependent on Germany, for example, not only for some articles necessary for the prosecution of the war, but for many others needed in ordinary industries. Dyes are a familiar illustration. Even foodstuffs were in some cases obtained from enemy sources of supply. The discovery of these conditions naturally stirred people of different countries, and brought out anew a demand for national economic independence on the part of each nation, so that its power to defend itself in war would not be impaired. Other motives, however, led to emphasis of the same demand as the war progressed. A conference among the Entente Allies was reported to have been held for the formation of an economic alliance, to continue after the war, the purpose being to develop trade among the Allies and their colonies, to the exclusion, so far as possible, of the trade of Germany and of her allies.

The situation has intensified again the demands of the protectionists and exponents of nationalism, who, even in times of peace, advocate national economic self-sufficiency. For, of course, the movement is not one that originated with the war. It has come to notice from time to time as one nation or another has developed its foreign trade. It is not many years since central European statesmen talked about a "Zollverein," or Mid-European tariff union against the United States. British statesmen have from time to time discussed the advisability of an imperial customs union against the rest of the world. But the war has given a new emphasis and a new aspect to the proposed policy, and it will need careful study in order not only to prevent mistakes on the part of particular countries, but to lay

the foundations for lasting peace on the basis of international amity.

Of course, no peace can be permanent if its conditions are such that each nation must continue the struggle for economic self-sufficiency; for a country could be economically independent only if it had within its own boundaries all the natural resources necessary for the purpose. National lines, however, are not drawn with this in view.

Moreover, national self-sufficiency would mean in the long run a restricted national life, for no country could have within its own boundaries all the resources and conditions necessary to satisfy its people, meet its requirements of defense, and enable it to make progress. New ways of living, new ideals, new culture, new conditions, would require changed economic methods and different economic resources. Consequently, self-sufficiency at one time is insufficiency at another, so that there can be no assurance of permanence for such a policy. Moreover, the country which had resources that prompted it to rise to a higher civilization might still be the object of attack of these which were less fortunate. Such a policy would tend to national isolation and the destruction of intercourse and to act as a check on the progress of civilization. There is no ideal worthy of the world and worthy of the peace which we all hope to establish, if not permanently, at any rate for a long period, excepting the ideal of free intercourse, whereby the resources of the earth shall be made available through the processes and agents that are most advantageous to the whole world. But to make the people of the world satisfied that an international policy based on that ideal is safe, it will be necessary to find means of insuring that no one country will find its existence or independence in danger because it does not include in its industrial system all the things and processes necessary to defend itself against attack. In other words, we must find some

way of seeing to it that aggression against a nation will not be possible. Unless we can do that, economic internationalism, after the experience of the present years, will be merely a dream.

The practicableness of economic internationalism will depend in part, after the war, on the methods adopted by the world for the improvement of backward parts of the earth. The colonization of Africa and the development of other places will have to be undertaken in some way which will preserve what may be described as the international equities. No arrangements can be regarded as morally justifiable which do not have as their first purpose the uplifting of the people already occupying the land. Closely connected with this question is that of the expansion of older countries by immigration. One of the arguments frequently put forth by Germans in defense of the present war is that Germany needs territory for its surplus population. The world cannot afford to admit such a plea. Germany does not need territory, although people of German origin may need more space in which to live. They can get it, as can other people, by going to less densely occupied parts of the earth; but they may not in this day and generation insist that they may take with them also the German government. They are free to settle and live their lives in other countries, and under other flags, which admit them. On such a principle a constant flux and reflux of population is possible without impairment of the rights of other people or the authority of other governments.

These and other subjects, as has been stated, are brought to the forefront of public discussion by the present war. Inasmuch as it is the purpose of the Carnegie Endowment for International Peace to spread information and add to knowledge in such ways as will bring about a better understanding among the nations of the earth, it is proper that a series of studies into such

questions should be undertaken by the Endowment. Preliminary to more extended inquiries into these and kindred subjects, arrangement has been made for their early publication.

DAVID KINLEY,
Editor.

November 28, 1917.

EARLY ECONOMIC EFFECTS OF THE WAR UPON CANADA

To appreciate the true effect of the great war upon Canadian economic conditions, it is essential to realize what was the economic situation of the country during the period which immediately preceded the war. This war which burst upon the world so suddenly did not strike the Dominion in the midst of a great period of expansion, but rather at the close of one. A fairly prolonged era of exceptional capital investment and active trade was drawing to an end, while readjustment and stock-taking were in process. What the next phase of economic development might be was the subject of active discussion by publicists, financiers, promoters, manufacturers, and merchants alike.

Canada, one of the younger countries, containing probably the largest area of unexploited powers of nature attractive to European immigrants, was especially interested in the practical outcome of readjustment. During the decade ending with 1913 the country had undergone a process of economic expansion which, in proportion to its previous trade and population, probably exceeded that of any other country. The evidence for this may be found in the correlated factors of the investment of foreign capital, the building of railroads, the influx of immigration, the expansion of towns and cities, and the speculation in land values connected therewith, particularly in western Canada and the eastern cities affected by the western expansion. These factors naturally reacted upon all other forms of economic activity in the country, making great demands for goods and services

of all kinds, enhancing prices and wages, stimulating industries, expanding markets, and encouraging by precept and example a speculative spirit throughout the country.

A few central facts will illustrate the movement during this decade. The population of Canada between the census periods of 1901 and 1911 had increased from 5,371,000 to 7,206,000, an increase of 1,835,000 or 150,000 more than during the three previous decades.¹ The percentage increase was greater than that of any other country. This increase was chiefly due to immigration; the number of immigrants arriving in the country for the census decade 1901-11 being 1,453,391, which is within 380,000 of the total increase of population for the decade. During the three years from 1911 to 1913 the country received a further increase in immigration of 1,067,753.² During the decade of 1903-13 the total trade of the country had expanded from \$467,000,000 to \$1,085,000,000, or nearly 232 per cent. The expansion in imports was much greater than that in exports. Imports increased from \$241,000,000 to \$692,000,000, being 287 per cent, while exports increased from \$225,000,000 to \$393,000,000, or 180 per cent.³ This, as we shall find, was due to the special conditions of expansion under the influence of the influx of foreign capital.

While, for the decade 1903-13, the capital of the Canadian banks expanded only from approximately \$76,500,000 to \$116,000,000, or 51 2-3 per cent, the note circulation increased from \$58,750,000 to \$105,500,000, or 80 per cent. At the same time dominion notes, or the government legal tender notes, expanded from \$39,000,000 to \$116,750,000, or practically 200 per cent.

¹ The Canada Year Book, 1915. Published by Authority of the Minister of Trade and Commerce. Ottawa, The King's Printer, 1916, p. 64.

² *Ibid.*, p. 111.

³ Report of the Department of Trade and Commerce for the Fiscal Year ended March 31, 1916, Part I, Canadian Trade. Ottawa, 1917, pp. 6 and 7.

Deposits of the public with the banks increased from \$379,000,000 to \$985,000,000, or 160 per cent, while bank loans to the public increased from \$406,000,000 to \$972,000,000, or 139½ per cent. Bank clearings increased from \$2,750,000 to \$9,250,000.¹ On the other hand, notwithstanding the immensely increased capacity for saving during the period, the deposits in the Post Office and Government Savings Banks fell during the decade from \$60,750,000 to \$57,000,000.² This, however, is quite in accordance with the speculative atmosphere of the period. The total dominion revenue on consolidated account expanded from \$66,000,000 to \$168,500,000, while the expenditure on consolidated account, that is, excluding the special capital expenditure, increased from \$51,500,000 to \$112,000,000, while the total expenditure including capital investments increased from \$61,750,000 to \$144,500,000.³ It might appear from the figures for the beginning and ending of the period that a considerable surplus had been accumulated. During some of the intermediate years, however, while the railways and other public works constructed or subsidized by the government were under construction, the total expenditure greatly exceeded the total revenue; as, for instance, in 1909, when the total revenue was \$85,000,000 and the total expenditure \$133,000,000. The actual result for the whole decade is shown in the increase of the national debt. The total debt increased from \$361,000,000 to \$483,000,000, but this was offset by public assets; in other words, the capital valuation of the government railroads and other public works for which a considerable portion of the total debt had been incurred. Deducting these assets, the net debt had increased from \$261,000,000 to

¹ Report of Department of Trade and Commerce, 1916, Part IV, pp. 32 and 33.

² Canada Public Accounts for Fiscal Year ended March 31, 1916. Ottawa, 1917, pp. 106 and 109.

³ Public Accounts, 1916, pp. 24 and 25.

\$814,000,000:¹ a very modest increase it must be admitted for a rapidly expanding country such as Canada.

The period 1903-13 being one of rapid expansion of railroads and other public works, we find that the railroad mileage in operation had increased from 18,988 to 29,304, or 54 per cent, while the gross earnings increased from \$96,000,000 to \$256,500,000, an increase of 166 per cent.²

Some consideration is necessary as to just how the expansion indicated in these typical statistics affected the country as a whole and in its several parts. Also in what condition it left the country to meet the revolutionary economic changes occasioned by the outbreak of the war. The first great factor is of course the enormous increase of immigration which occurred during the period in question, amounting to 2,276,252. Even allowing that a considerable number of the immigrants did not remain long in the country, the United States returns showing an immigration from Canada to the United States during the same period of 363,614,³ still the total increase of the population was very large and involved a great stimulus to the economic expansion of the country. It is an interesting fact that the great majority of these immigrants came to Canada with the professed purpose of settling on the land. The Canadian government had solemnly pledged itself by Act of Parliament and in the interests chiefly of the trade unions to assist only two classes of immigrants, viz.: those going on the land and those entering domestic service. General observation, however, supported by the census returns of 1911, indicates that the great majority of the immigrants, from Great Britain at least, went into the towns and cities. They were accompanied also by a good many from the older districts of the eastern provinces of Canada and

¹ Public Accounts, 1916, p. 26.

² Report of Trade and Commerce, 1916, Part IV, p. 47.

³ From statistics furnished by Canadian immigration officials.

even from the older settled portions of southern Manitoba. Thus while the urban population of the country increased by 1,259,165, the rural population increased by only 576,163. This increase of rural population was more than represented in the western provinces. In all of the eastern provinces except Quebec, the rural population declined during the decade; even in the two western provinces of Manitoba and British Columbia the increase in the urban population considerably exceeded that in the rural. Thus in the western provinces from Manitoba to the Pacific Coast while the rural population increased by 638,494 the urban population in these almost entirely new districts increased by 478,526. In the previous decade the relative increases in these regions were, rural population 399,344; urban population 198,825, or as two to one in favor of the rural population.¹

Almost the only permanent services rendered by the urban population in the newly settled districts are those of distribution and transportation of goods, with little manufacturing, except lumber in the timber districts and coal mining in Alberta and British Columbia. It is therefore an interesting question as to how so large an urban population could be maintained in a country which is chiefly concerned with the breaking up of new lands and the simpler forms of agriculture. On a closer survey it is found that the greater part of the urban population in the western provinces was supported by the building of the railroads which opened up the country, but more especially through the construction of the very towns and cities which grew up along these railroads and into which the newer population poured, stimulating and expanding the general atmosphere of speculation and the promotion of local enterprises of a purely temporary nature. Needless to say, not only was the railroad construction

¹ Canada Year Book for 1915, p. 77.

which pioneered the way into the wilderness financed on borrowed capital, but so were practically all of the towns and cities which sprang up in the wake of the railroad construction. Land speculation, in the shape of indefinite subdivisions and the sale of town and city lots, was at the bottom of most of the rapid expansion of the western municipalities extending far beyond any actual needs of the time.

What disguised from the people of the West the purely temporary character of the prosperity of the newer towns and cities was the very large amount of business being done in these urban centers and the exceptional number of people who found very profitable employment, with much consequent demand for housing, food, clothing, household equipment, and luxuries of various kinds. All this, however, was being supported chiefly on borrowed capital. When the flow of capital ceased the growth of the towns and cities ceased also. Those employed in the building trades must go elsewhere or starve. On their departure they left empty houses and a glutted real estate market. Also when their high wages ceased to flow into the coffers of the local merchants, they too were in distress and must either curtail or close up their establishments. Thus the shrinkage of the prosperity built up on the very construction of the towns themselves led to many unexpected hardships for those who remained and who had only the requirements of the neighboring settlers to sustain their urban businesses, or, in the case of the larger centers, the declining distributing trade for the smaller towns.

This process repeated in varying degrees from the smaller towns to the larger cities throughout a great area such as the Canadian West, linked up by ever-expanding railroad systems, represented many hundreds of millions of additional capital in their construction and equipment and naturally involved an immense stimulus

to the economic activity of the country, while bringing great volumes of trade and prosperity to the older sections of the country where manufactures of various kinds had been established.

Such was the period of exceptional expansion which continued during the decade closing the year before the outbreak of the great war. A few observations on the special effect of such a period of expansion on a half-matured country such as Canada may be necessary in order that one may appreciate the changes wrought by the war conditions.

In the first place, the absorption of so much of the incoming population and wealth of the country in the building of railroads and urban centers, prevented hundreds of thousands of people from going on the land or engaging in any immediately productive enterprises. The fact that so much of the capital and energy of the country was being employed in the production of forms of wealth which, however attractive and desirable in themselves, yet represented no available products to meet popular needs for the immediate present or future, greatly affected not only the imports and exports of the country but had an important bearing upon the prices of the standard articles of consumption. In all cases the millions of capital which were absorbed in the construction of great public works, such as railways, and the building of towns and cities, were expended very rapidly, while the services to be rendered by these, even assuming that they might in time amply repay the outlay, would return very slowly. In any case, only a few of the mercantile establishments in the expanding towns and cities made any pretense of immediately replacing the capital invested in them.

This being so, what we find is that during such a period of expansion there must be but few exports to meet or replace the imports, which are stimulated by the expenditure of scores of millions of borrowed capital.

In fact, the investment of so much borrowed capital in either non-productive or but slowly productive forms means the creation of a great demand in the country itself for domestic supplies, such as all forms of food, lumber, coal, and other native products which would normally be exported. It means also a great increase in the demand for foreign imports in the way of food, clothing, implements, and general supplies which are not produced within the country.

When we turn to the statistics of Canadian trade for the decade of expanding immigration, great borrowing of capital for railroads and other public works, the building of new towns and cities and the expanding of older ones, we find that practically all of the borrowed capital from abroad came to Canada in the shape of imported goods. The excess of the import of bullion over its export was not more than sufficient to meet the normal needs for an increased reserve in specie to offset the normal expansion of paper currency required to meet the needs of an increased trade. Thus we find that, for the decade between 1903 and 1913, imports increased from \$241,000,000 to \$692,000,000, while exports increased only from \$225,000,000 to \$393,000,000, the former being an increase of 187 per cent, while the latter represented an increase of only 97 per cent.¹

In 1899, for the first time in five years, the imports exceeded the exports, but it was not until 1903 that the average imports gained an ascendancy over the exports. That year they did so to the extent of about \$15,250,000. Thereafter the imports had decidedly the ascendancy and by 1913 the excess of imports had extended to \$298,750,000 for that year. During the decade the accumulated excess of imports over exports amounted to \$1,164,000,000.² This excess of imports represented practically that portion of our borrowings abroad which

¹ Report of Trade and Commerce, 1916, Part IV, p. 50.

² *Ibid.*

were transmitted to Canada. In this there were only \$26,000,000 of gold, which was not more than necessary to meet the additional requirements of the increased note issues of the government and the banks. Most of the borrowings which were not transmitted to Canada served to offset the interest on the national debt, which for this period amounted to upwards of \$123,000,000.¹ The interest on the provincial and municipal debts on railway bonds and on many other corporate securities held in Britain had also to be provided for out of the borrowings, inasmuch as the exports were all offset in meeting only a portion of the imports.

In the course of the year 1912 a somewhat uneasy feeling began to pervade the financial world as to the possibility of the optimistic or speculative spirit having led to numerous doubtful or unwise investments. In consequence there ensued very generally throughout the world during 1913 a much more cautious spirit. This naturally applied more particularly to those countries where extensive new developments were taking place, and thus included Canada. The curtailment of investment was therefore felt in Canada to an increasing extent. The immediate result as reflected in Canadian experience was a shrinkage of funds for public and corporate enterprises, various government enterprises were checked, the western municipalities had perforce to curtail their expenditures, the railroads diminished their capital expenditure, and, as an immediate effect, quite a number of persons connected with the extensive enterprises previously carried on were thrown out of employment. A check was also put upon the immigration of those who sought employment in the cities. The secondary consequences of these primary conditions were revealed in a marked diminution in the business of furnishing materials and equipment of construction, as also in that of supplying both the necessaries and luxuries of

¹ Public Accounts, 1916, p. 27.

life, freely purchased by communities enjoying generous incomes whether from personal services or profits.

As the most widespread and highly speculative accompaniment of good times had been the dealings in urban and suburban real estate, especially in the western provinces, there was an immediate and effective check in this extensive line of speculation, followed by a very pronounced reaction in realty values which continued during the latter part of 1913, and was still very marked when the war broke out in 1914. There was at once a double reaction in economic conditions during the twelve months before the beginning of the war. First and most extensive, a reaction in purely speculative values; secondly, a shrinkage in the output of numerous industries connected with the supply of materials and equipment for the building of railroads, towns and cities, and the miscellaneous equipment, including internal furnishings, in thousands of public, business, and private buildings; lastly, and in consequence of the foregoing, there was a shrinkage in the supply of goods for the daily wants of a population which had been rapidly increasing in numbers and purchasing power.

In time, of course, in Canada as in other countries, there would have been a readjustment of employment. Many persons would have transferred from the cities to the country and from employments which furnished no immediate returns for the satisfaction of daily wants to those which furnished such supplies alike for domestic consumption and export. The war, however, was precipitated before this readjustment could take place. While there was much unemployment and consequent distress throughout the country during the winter of 1913-14, there was certain to have been much greater distress during the ensuing winter of 1914-15. The fact that the war burst upon the world while Canadian economic conditions were in this critical situation must be kept steadily in mind in attempting to estimate the

effects of the war upon the economic condition of the country.

One of the most immediate and striking factors in the situation was the facility for voluntary recruiting which the critical condition of lessened employment provided. Only those who have been actively engaged in recruiting can realize how many and varied are the motives and influences which lead men to voluntarily enlist for military service. In a war such as the present where so much that is vital to the very existence as well as the civilization of the race is at stake, there is room for the very widest range and combination of motives in taking up arms. But whether the motives be of a higher or of a lower type or, as in the great majority of cases, of some intermediate quality, the fact that a great many persons find themselves free to enlist in the sense of not having any fixed employment or business engagements that cannot easily be postponed, was a very important factor in leading to such an immediate and ready response to the call to join the colors and to risk everything in the service of the country. Such was the situation in Canada when the war broke out.

One immediate effect of the war was to greatly increase the paralysis of trade and industry, as also the financial, transportation, and other interests depending upon them, and thus to enlarge the field of unemployment actually and prospectively. Of the large numbers who found themselves actually or in prospect without employment, the number of recent immigrants from Britain, chiefly located in the newer urban centers of the West and in the larger cities of the East, naturally constituted a large proportion. Thus one of the earliest and most important economic effects of the war was the relief of the congested condition of the labor market at the time of its outbreak. A secondary and important consequence was that the assigned pay and separation allowances which were arranged for the wives and de-

pendents of the enlisted soldiers provided for the essential wants of many who would otherwise have been in distress by reason of the head of the household being wholly or partially out of employment. When these allowances to the dependents were speedily supplemented, in all necessary cases, by payments from the Patriotic Fund, derived from voluntary subscriptions, the general distress due to unemployment was almost at an end and cannot recur before the close of the war at least.

Naturally those native Canadians who felt most strongly the responsibility to respond to the call of their country, whether having at the time of the outbreak of the war permanent occupations or not, were among the first to offer their services and swelled the numbers of those presenting themselves for enlistment in the early months of the war. In fact, at this stage of the conflict the military authorities had many more offers of enlistment than they could possibly provide for. Evidently impressed by the readiness of so many citizens to enlist, the government estimated that there would be little difficulty in securing as volunteers all the troops required and perhaps more than the civil requirements of the country could spare. As the gravity and duration of the war began to be more fully realized the offers of troops by the Canadian government rapidly expanded. Immediately on the outbreak of the war 30,000 men and supplies were offered. Then in July, 1915, 150,000 troops were promised. In October, 1915, the number was increased to 250,000. Finally, on January 1, 1916, the numbers promised were raised to 500,000.¹ As we shall have occasion to observe, this larger number proved more difficult to find on the voluntary principle than was at all anticipated in the early stages of the war.

The rapid enlistment during the first year of the war would itself have prevented the unemployment problem

¹ Unrevised Hansard, Jan. 17, 1916, p. 25.

from becoming a matter of any great difficulty. But the immediate revival of the national borrowings and expenditure on a rapidly developing scale, and the transformation into munition factories of many of the largest manufacturing establishments of the country, whose businesses had been severely checked by the previous period of reaction, resulted in a sharp transition from stagnation to feverish production. This was particularly true of those industries connected with iron and steel, clothing, leather, vehicle, and other supplies called for in connection with war equipment. This immediately stimulated the demand for all forms of labor.

Again, the rapid development of munition industries, the transport of large quantities of raw materials to be converted into finished articles, the enormous movements of troops with all their personal and camp equipments and food supplies, not only greatly augmented the import and export of various lines of supplies, but incidentally led to a remarkable expansion of the transportation services and the industries subsidiary to them, still further increasing the demand for labor and many other forms of supplies. Thus between the demand for men as troops and as workmen, the condition of business stagnation and unemployment in which Canada found itself when the war broke out and for some weeks afterwards, was rapidly dissipated by a new, strange, and wholly abnormal situation incidental to the outbreak of war. The situation was marked by an unlimited demand for men, materials, and supplies at ever-increasing prices and rates of remuneration, the whole financed by rapidly succeeding loans doubling and trebling their predecessors each year.

One of the most important features in connection with this economic revolution was the fact that practically none of this borrowing, manufacturing and price making which prevailed proceeded on the basis of ordinary economic investment, production, and marketing. In borrowing

the funds to be expended, there was no longer any question as to whether the returns to be expected would replace any part of the capital or meet the interest, much less furnish a margin of profit. No economic return was expected from most of the goods supplied or the services rendered. Almost all economic activities became subsidiary to the prosecution of the war, and in meeting the demands of the state for men and supplies, prices and rates were made without reference to whether industry could be maintained at the cost of production and the rates of profit and remuneration for services which were soon prevailing. This does not altogether mean that there was no competition in business, or that the rates established by public institutions, such as those governing railway transportation, were entirely disregarded. But it does mean that where the ultimate demand for finished products and services emanated from the Canadian, British, or allied governments who had no thought of economic returns but only of speedy and adequate supplies for the conduct of the war, the ultimate question was not whether the prices or profits were reasonable or unreasonable, economically possible or not, but simply at what effective and necessary rates the indispensable supplies and services could be obtained.

In this connection it is worth noting that as far as the prosperity which results from an active period of production and high prices is concerned, there is no difference between the investment of funds in enterprises which will prove highly remunerative to the investors, or in enterprises which will prove to be entirely unprofitable even to the extent of losing the whole or at least the greater part of the capital invested. It is only when an enterprise, in which capital is invested and which is beneficially promoting trade and industry, comes to the practical test as to whether its output of goods or services at prevailing rates will make an adequate return on the expenditure, that the question of profit or loss

to the investors, and therefore to the communities served, is determined. While the capital is being invested the stimulus to trade and industry is just as great from the enterprise doomed to failure as from one destined to success. So in the case of the expenditure on war. The prosperity due to the disbursements of large war loans is as beneficial to the trade and industry of the country, while the expenditure continues, as if it were made with the most certain prospect of ample returns on the funds expended. Only after the war expenditure is completed and no economic returns are forthcoming to replace the wealth destroyed do the unfortunate consequences make themselves felt, in the absence of any replacement of the capital expended, with which to meet the next stage of capital production. At the same time, the interest on the vanished wealth requires to be met, while new efforts are called for to replace the vanished funds. This double burden of replacing wasted capital and paying the interest on what has vanished falls upon the remaining industry and capital of the country. The measure of the burden thus imposed is the proportion which the capital destroyed bears to that which remains, making allowance in the case of individual countries for new capital which may be borrowed. At the same time one recognizes the additional burdens entailed by borrowed capital as compared with the accumulations of domestic savings.

Up to the present, however, Canada knows practically nothing of this unfortunate aftermath, for even the interest on past war loans is being met from new loans or the excess profits tax, which latter is only part of the exceptional capital expenditure due to war conditions. The prosperity of those immediately concerned in the production of war supplies and services has already extended to those other economic classes who cater to these primary beneficiaries, whether in the way of supplying raw materials, secondary goods and instruments

for production, or in the way of meeting their daily wants in the lines of food, clothing, housing, fuel, transportation, amusements, and luxuries of various kinds.

On the other hand, high earnings and high profits lead to increased personal expenditure, thus making an increased demand not only for all manner of the necessities of life but for most of its luxuries as well. Further, where light labor and personal services are in demand there are increased openings for women and the junior members of families. Thus a larger proportion of the total population left in the country after the departure of the troops is finding profitable employment. When there is added to this the further fact that supplementary allowances are made to the wives and families of most of the overseas troops, it is obvious that an exceptionally large spending fund, in proportion to the total population, is in circulation. This manifests itself not only in exceptional demands for the ordinary means of life, but also for most of the luxuries and amusements available for modern urban dwellers. As will be pointed out later, these broad facts are effectively exhibited in the trade statistics of the country.

Only those who receive fixed salaries or other unexpansible incomes, in the way of annuities and returns from permanent investments, suffer without compensation from the ever-increasing prices which prevail. High prices, however, may outrun even the increasing profits and wages obtained by those in the secondary economic classes dependent upon the primary beneficiaries of war supplies and service. As, however, these classes are either well organized or have other methods of protecting themselves by insisting upon increases in wages and profits, there results a general clamor for increased incomes and diminished outlay. In the latter case this takes the form of demands for lower prices for at least the most essential requirements of life. These claims tend eventually to concentrate upon the

government in the form of somewhat antagonistic demands upon our rulers for at once increased wages and diminished prices. Since the government itself has emancipated its operations from the conditions of all ordinary economic production and consumption, the unreflecting masses are apt to demand that it should do for the people at large what it has been able to do for itself. In a word, there seems to be no valid reason why the government should not forthwith abolish by Order in Council the old aphorism "*ex nihilo nihil fit.*"

In any case, the general economic outcome of the war, after nearly three years duration, is that the country has been converted from a condition of economic depression, with growing anxiety in industrial and commercial centers, into a condition of exceptional prosperity with high wages and ready employment, and with high profits in large volume followed by increased and even lavish expenditure. This condition, accompanied by great foreign demand for the staple means of life, is resulting in very high prices without, however, any corresponding increase in supplies, because the profits and incomes obtainable in the urban centers still exceed those in the rural districts. In a word, the economic condition of the country has come to be entirely dominated by the war, and is therefore increasingly artificial and abnormal in almost every line of activity.

Having outlined the general situation of Canada for the decade immediately preceding the outbreak of the great war and having shown what was the more or less critical condition of the country at the time of the declaration of war, and also having given a general indication of the temporary economic revolution which has been produced by war conditions, we are now in a position to appreciate the significance of the concrete facts relating to the various phases of the economic activity of Canada and its relations to foreign countries and world

conditions. We may deal first with the general trade of the country, then extend our survey to the underlying and conditional factors of production including labor conditions and prices, transportation, exchange, and finance, national and corporate.

As we have seen, Canadian imports, reckoned according to the fiscal year ending the 31st of March, culminated in a maximum of \$686,000,000, exclusive of coin and bullion, in 1912-13, or \$670,000,000 for domestic consumption. During the year of partial reaction preceding the war, imports not only ceased to expand but receded by over \$50,000,000, falling to \$618,500,000 for domestic consumption. During the following year, 1914-15, covering eight months of the war, they receded another \$163,000,000, dropping to \$455,000,000 for domestic consumption. During the year 1915-16, entirely under war conditions, owing to the immensely augmented expenditures of the government and the revival of manufacturing on a large and profitable scale, with the incidental benefit of a bountiful harvest, not only was the downward tendency of imports arrested but the tide was turned in an upward direction to the extent of over \$50,000,000, the total amounting to \$507,000,000 for domestic consumption.¹ The continuing tide of prosperity for the past year, 1916-17, has led to a still greater increase of imports. The preliminary returns for the fiscal year of 1916-17 show that the imports amounted to \$845,000,000 for domestic consumption and exclusive of coin and bullion.² This represents an increase over the year ended 1916 amounting to \$337,400,000, representing over 66 per cent; it also represents an increase of \$175,000,000 over the imports of the year 1912-13, which as we have seen was the previous high-water mark of importation. Of course, as we shall see, some allowance must be made for an increase in prices.

¹ Trade and Commerce Report for 1916, Part I, p. 7.

² Weekly Bulletin, Department of Trade and Commerce, May 7, 1917, p. 1116.

We turn now to exports as affected by the war. We have already seen that while for the year 1912-13 imports had reached a maximum of \$686,000,000 the exports had risen to only \$377,000,000, including foreign produce but excluding coin and bullion. This was not much more than half the amount of the imports. The following year, however, 1913-14, the last before the war, while the imports fell by \$50,000,000, the exports increased by over \$75,000,000, to a total of \$455,000,000. During the first year of war, 1914-15, the exports increased only \$6,000,000 to \$461,000,000. Since, however, the imports fell off very greatly, there was a difference of only \$36,000,000 in favor of imports. For the second year of the war, 1915-16, the balance was heavily turned in favor of exports, the total having risen to \$779,000,000, an increase of not less than \$318,000,000, or 68 per cent.¹ From the preliminary returns for the year 1916-17, we find that the exports amounted to \$1,179,000,000, an increase of \$400,000,000, or over 51 per cent.² Great as is this increase it is not, however, as great in proportion as that for imports for this year, which amounted to 66 per cent.

When we turn to the items which make up the increased exports we find that the greatest increase during the war period has been in manufactures, which have risen from \$54,000,000 for the twelve months ending December, 1913, through \$69,000,000 for the year 1914, to \$191,000,000 for the year 1915, and \$440,000,000 for the year 1916. This, of course, represents chiefly war munitions. The next largest increase was in agricultural products, apart from animal products. These increased from \$127,000,000 in 1914 to \$364,000,000 in 1916. Next come animal products, increasing from \$68,000,000 in 1914 to \$117,000,000 in 1916. For the same calendar years, 1914-16, the products of the mine

¹ Trade and Commerce Report for 1916, Part I, p. 6.

² Weekly Bulletin, May 7, 1917, p. 1116.

increased from \$53,000,000 to \$81,000,000; the fisheries from \$18,000,000 to \$24,000,000, and the forest products from \$41,000,000 to \$55,000,000.¹

A closer analysis of the exceptional increase in manufactures between 1914 and 1916, amounting to \$371,000,000 or a fivefold increase over 1914, reveals certain important facts bearing on the economic effects of the war. The chief articles making up this great increase were cartridges, including shells of every description. Before the war the export of these was wholly negligible. They began to be sent forward in large quantities only in December, 1915, but from that to the end of 1916 \$231,000,000 worth have been shipped. Before December, 1915, less than \$3,000,000 worth had been shipped during the first sixteen months of the war.² Other explosives accounted for an increase of \$28,000,000 during 1916, while before that less than \$2,000,000 had been exported during the war period.³ For the first two months of 1917 an additional \$41,000,000 of cartridges and \$8,000,000 of other explosives had been shipped.⁴ Cartridges and explosives accounted for over two-thirds of the increase in exports from the outbreak of the war. Another large increase was in gasoline launches, which before 1916 had not amounted to above \$10,000 worth for a year. During the year 1916, however, they were exported to the extent of \$7,250,000,⁵ and in January, 1917, an additional \$7,900,000 were shipped.⁶ Leather and leather goods accounted for a considerable increase in manufactures, but there was much variation in this line. The most pronounced increase was in harness and saddlery, of which only a few thousand dollars' worth had been exported before the war. In

¹ Trade and Commerce Report for 1916, Part I, p. xx.

² *Ibid.*, p. xxii.

³ *Ibid.*

⁴ Trade and Commerce Monthly Reports, Jan., 1917, p. 1357, and Feb., 1917, p. 1667.

⁵ Trade and Commerce Report for 1916, Part I, p. xxii.

⁶ Trade and Commerce Monthly Report, Jan., 1917, p. 1385.

November, 1914, however, there began quite an exceptional increase in these exports to Europe, chiefly to Great Britain, France, and Russia. The amount rapidly rose in a few months to over \$2,000,000 in March, 1915, and the export was well sustained until August of that year. Thereafter, however, it fell off rapidly, with a slight increase in the spring of 1916. Since then the export has shrunk to almost prewar conditions.¹

The export of iron and steel manufactures has greatly increased. Before the war Canada exported from \$8,000,000 to \$10,000,000 in these lines, from a half to three-quarters of which consisted of agricultural implements. But while these fell off by more than a half during the second and third years of the war, the total export of iron and steel manufactures rose from \$11,000,000 in 1914 to \$14,000,000 in 1915, and \$54,000,000 in 1916.² These represent largely miscellaneous products sent to Great Britain.

Other manufactured articles in which there has been a considerable increase during the war are clothing, which reached a maximum of \$11,250,000 in the six months from December to May, 1915, but soon fell off again to less than one-third of that amount for the corresponding period in 1916, while in the last six months of 1916 the export amounted to only \$716,000. Drugs and chemicals have also steadily increased from about \$6,000,000 in 1915 to nearly \$9,000,000 in 1916.³

Of the agricultural products exported the greatest increases have occurred in wheat and wheat flour and oats. The exports of wheat rose rapidly in the autumn of 1914, yet the harvest of that year was not good and the amounts exported for the first nine months of the following year, 1915, were on the whole not more in value and less in quantity than the normal exports before the war. With the incoming of the exceptional harvest

¹ Trade and Commerce Report, 1916, Part I, p. xxiii.

² *Ibid.*, p. xxiv.

³ *Ibid.*, p. xxii.

of 1915 there was naturally an enormous increase in the export of Canadian wheat to Europe. During the first nine months of that year the monthly export had not ranged beyond \$3,500,000 to \$7,500,000, except in June when it rose to \$10,000,000. In the autumn of 1915, however, the monthly exports suddenly increased, rising to nearly \$33,000,000 in October, followed by \$44,000,000 in November and \$39,000,000 in December. In April of the following year, 1916, extensive shipments were resumed, ranging from \$14,500,000 to \$34,500,000 per month. Owing to the autumn shipments the total for 1915 was increased to \$166,000,000, 70 per cent of which had been contributed in the last three months of the year. The total for 1916 amounted to \$239,000,000.¹ A rise in prices, as we shall see, accounted for some proportion in the increase but not as much as might be expected. The statistics as to quantities exported are available only to the end of the fiscal year in March, 1915-16. For the last four years quantities and values compare as follows:

	1912-1913	1913-1914	1914-1915	1915-1916
Bushels.....	93,100,000	120,410,000	71,900,000	157,700,000
Value.....	\$88,600,000	\$117,700,000	\$74,200,000	\$172,800,000 ²

The export of flour, depending much more upon the capacity of the mills than upon the harvest, did not expand to any considerable extent until the fiscal year 1915-16. There was, however, a very considerable expansion in values at least during the latter part of 1915 and throughout 1916, the totals for these years being \$31,000,000 and \$46,000,000 respectively.³ As in so many other cases the diminished consumption in the country due to the decrease in population tended to provide a corresponding increase in exports. Moreover, the feeding by Canada of its own soldiers overseas caused

¹ Trade and Commerce Report for 1916, Part I, p. xxii.

² *Ibid.*, p. 684.

³ *Ibid.*, p. xxii.

the amounts supplied to appear in the exports of the country.

There was a rapid increase in the export of oats in the autumn of 1914 and which was resumed in the spring of 1915. The irregularity of shipping conditions caused considerable variation in the export of oats for individual months. Thus in May, August, September, November, and December of 1915 the shipments were over \$1,000,000 worth per month, whereas in some of the intermediate months the exports did not amount to more than one-half, one-third, or even one-sixth of that. The total exports for the year 1914-15 rose to \$10,000,000, but the following year when the shipments were somewhat more steady the total amounted to \$35,000,000.¹ The increase for this period was chiefly to France, the amount going to Great Britain being offset by the diminished amount going to the United States. The price of oats proportionately increased more than that of wheat as indicated in the following rates:

	1913-1914	1914-1915	1915-1916
Bushels.....	35,000,000	17,700,000	26,800,000
Value.....	\$13,300,000	\$8,900,000	\$14,600,000 *

There was no increase in the export of potatoes as due to the war, but rather the reverse. The great increase in the price of potatoes and certain other vegetables during 1916-17 was due to the very unfavorable weather of 1916, which greatly reduced the crops of roots and vegetables. There was, however, a considerable increase in the export of vegetables other than potatoes, both in the shape of canned goods and in other forms. The total value of the exports, however, up to the fiscal year ending March, 1916, did not exceed \$500,000.³

The effect of the war upon the export of hay resulted

¹ Trade and Commerce Report for 1916, Part I, p. xxii.

² *Ibid.*, p. 682.

³ *Ibid.*, p. 730.

in a change of destination from the United States, to which most of it had previously gone, to England and France, especially the latter country. From the fiscal year ending in 1912 to that ending in 1915 there had been a rapid decline in the export of hay, from 784,000 tons to 131,000 tons. During 1915-16 the export rose to 255,000 tons, about half of which went to France. The value of hay was practically doubled between 1915 and 1916.¹

The next important line of export stimulated by the war was that of animals and animal products. The results, however, were far from uniform and much influenced by other currents than those of the war demand directly. In other words, the war conditions tended at one period to increase exports and at another to diminish them. This was due, of course, chiefly to the conditions affecting transportation. In the matter of cattle of one year old and upwards, the export for the year before the war amounted to over \$7,500,000. For the first of the two years of the war the value of the exports rose to \$8,750,000 and the next year to \$12,000,000.² The increase, however, was entirely to the United States, inasmuch as the export to Britain, which was only about \$700,000 the year before the war, was practically paralyzed for lack of shipping facilities. As a matter of fact meat had to be shipped to Europe in a dressed or packed condition. Thus the export of beef, which had increased rapidly from 948,000 pounds in 1911-12 to 13,000,000 pounds in 1914, continued to increase for the first two years of the war from 18,750,000 pounds in 1915 to 47,500,000 in 1916.³ The increase in value, however, was much more rapid, being about 50 per cent in the two years of the war as compared with the last year of peace. Not much beef had been shipped to Great Britain before

¹ Trade and Commerce Report, 1916, Part I, p. 754.

² *Ibid.*, p. 645.

³ *Ibid.*, p. 721.

the outbreak of the war, owing to the great demand with high prices in Canada itself during the period of rapid expansion. The diminished consumption at home, however, and the high prices abroad greatly increased the exports to Britain. They rose from 190,000 pounds in 1913-14 to 1,330,000 pounds in 1915 and to 13,912,000 pounds in 1915-16. The United States shared with Great Britain in the increased exports of Canadian beef after the close of the expansion period in Canada.¹

One of the striking consequences of the war has naturally been the great alteration in the volume and direction of Canadian exports and imports. In the matter of exports articles which scarcely figured in the external trade of the country rapidly rose within the last two years to leading places on the list. Thus cartridges and shells of various kinds, which in the three years before the war had not amounted to \$10,000 a year, in the first ten months of the fiscal year 1914-15 were exported to the value of \$188,000. The following year, 1915-16, for the same period they rose to \$37,800,000 and in 1916-17 to \$185,329,000.² The exports of other explosives before the war were equally insignificant. But in ten months of 1914-15 they amounted to \$202,000, the ten months of the next year to \$3,691,000 and for the corresponding ten months ending January, 1917, to \$26,760,000.³ Steam launches, which even in the first two years of the war amounted to only \$6,000 and \$7,000 respectively, suddenly rose in ten months of 1916-17 to \$15,147,000. Carbide rose from \$625,000 in 1914-15 to \$2,789,000 in 1915-16 and \$3,743,000 in the ten months to January, 1917.⁴ Sugar, which was exported for the first time in 1915, but only to the extent of \$31,000, suddenly rose in 1916 to \$3,393,000, sent to Great Britain.⁵

¹ Trade and Commerce Report, 1916, Part I, p. 721.

² Trade and Commerce Monthly Report, Jan., 1917, p. vii.

³ *Ibid.*

⁴ *Ibid.*

⁵ *Ibid.*

Taking the exports of the following seven articles, cartridges and shells, copper and brass, gasolene launches, carbide, sugar, butter, and whiskey, the total export for the ten-month periods to January in each year amounted to \$8,519,000 in 1915, \$59,670,000 in 1916, and \$262,158,000 in 1917. These amounts represent the following percentages of the total Canadian exports for these periods: in 1915, 2.5 per cent; 1916, 10 per cent; 1917, 27.4 per cent.¹

As to the limited field in which Canadian export trade operates, it is found that fifty of the leading articles of export amounted, in the ten-month periods already referred to, to the following percentages of the total exports of the country: January, 1915, 84 per cent; 1916, 88 per cent; 1917, 91 per cent; while thirteen of the leading articles amounted to the following percentages of the total exports: 1915, 51 per cent; 1916, 59 per cent; 1917, 71 per cent.²

As to the general direction of Canadian trade, it is found that for many years past a very large proportion of Canadian imports and exports have been connected with the two countries Great Britain and the United States. The place which Canada fills in United States trade is shown from the following facts. In the foreign trade of the United States, Great Britain is in all respects first. As regards the other countries, the imports into the United States from Canada came second to Britain in 1915, third in 1916, Cuba coming second, while Canada was second again in 1917. As regards exports from the United States to all countries, Canada came second to Britain in 1915, third in 1916, and third in 1917, France coming second in those two years.³

The percentages of Canadian trade with the two countries of Great Britain and the United States taken

¹ Compiled from various Trade and Commerce Returns.

² *Ibid.*

³ From Tables of United States Returns given in Canadian Trade and Commerce Monthly Report for Jan., 1917, p. 1122.

together and separately are set forth in the accompanying table. These percentages cover the ten-month periods ending in January in each year.

	1915	1916	1917
Percentages of Canadian exports to			
Great Britain and the United States.....	88½%	88%	89%
Great Britain	44½	60	64¾
The United States.....	44	28	24¼
Percentages of Canadian imports from			
Great Britain and the United States.....	84¾	87½	91
Great Britain	20	15½	13
The United States.....	64¾	72	73 ¹

Taking the period before the war we have the following corresponding percentages for the full fiscal years ending with the dates indicated:

	1912	1913	1914
Percentages of Canadian exports to			
Great Britain and the United States.....	93%	87%	87¾%
Great Britain	51	47¾	50
The United States.....	42	39¼	37¾
Percentages of Canadian imports from			
Great Britain and the United States.....	85	85	85
Great Britain	22	20	21
The United States.....	63	65	64 ²

It will be seen from these figures that the trade of Canada not only under normal conditions but even during the war period is so overwhelmingly with the two countries of Great Britain and the United States that its trade with the rest of the world is of very secondary interest to the country as a whole. Consequently, the almost total cessation of trade with certain countries, particularly those of the enemy and those affected by the war zones, makes but little difference to the general economic condition of Canada, however much it may affect a few special interests or individuals. It may be observed that, taken as a whole, the proportion of Canadian exports going to Great Britain and the United States together, has varied very slightly in passing from the prewar to the war period. The proportion of the joint trade has slightly increased since the outbreak of the war, but not so greatly as might have been

¹ Compiled from Returns in Monthly Report for Jan., 1917.

² Compiled from Returns in Trade and Commerce Report, 1916, Part I.

expected when we consider the very considerable alteration in the demand for Canadian raw materials, and especially in the character of Canadian manufactured exports. When, however, we come to survey the proportions in which this fairly uniform joint trade is made up from the two separate countries, we find that while the individual proportions are fairly uniform for the three years before the war, there is a very great change in the three years during the war. Canadian exports to Great Britain are normally greater than those to the United States, nearly in the proportion of five to four. During the first year of the war, however, they were equally divided between the two countries. Then the war demands from Britain greatly increased, but this was almost exactly offset by a corresponding decrease in the exports to the United States. Thus, while the joint proportion remained substantially the same, the practical equality in the case of the two countries which prevailed during the first year of the war, became as two to one in favor of Britain in the second year, and approximately three to one in the third year of the war.

On the other hand, the imports from Great Britain, which were practically one-third those from the United States in the prewar period, became steadily less during the war period, being somewhat less than one-third in the first year, falling to practically one-fifth during the second year, and exactly one-sixth during the third year. In the case of imports, not only was there a marked transference of the source of supply from Great Britain to the United States, but the United States absorbed also most of the reduced trade with several other countries. This accounts for the fact that the total import trade with Great Britain and the United States rose from $84\frac{3}{4}$ per cent in 1915 through $87\frac{1}{2}$ per cent in 1916 to 91 per cent in 1917. Of this trade, the United States obtained no less than 78 per cent. The normal percentage of imports from the United States during the

prewar period was practically 64. The very great increase of imports from the United States during the war has been due to several combined conditions. First, the almost complete cessation of supplies from foreign countries, particularly those of the enemy and those in the zone of war. The chief cause of the transference of trade from Great Britain to the United States has been partly that many articles hitherto exported were urgently needed in Britain; chiefly because of the increasing cost of ocean freights and the diminishing ocean tonnage. Lastly, the supplies of materials and equipment for the manufacture of munitions in Canada were most readily obtained from the United States. Thus if we take some typical imports for the ten-month periods ending in January of each year we find such results as these for the war period:

Imports for 10 Months	1915	1916	1917
Metals and minerals.....	\$71,500,000	\$80,700,000	\$133,100,000
Articles for the army and navy.....	600,000	37,000,000	115,900,000
Chemicals, drugs, dyes, etc.....	11,100,000	13,100,000	23,200,000
Cotton, and manufacture of.....	21,100,000	24,400,000	41,300,000
Provisions.....	4,700,000	7,000,000	19,200,000

These great increases in the total amounts were almost entirely from the United States, thus materially increasing the proportion obtained from that country. Thus \$114,400,000 of the \$115,900,000 of the articles for the army and navy came from the United States. In the case of chemicals, drugs and dyes, the proportion from the United States rose from sixty-two in 1915 to seventy-six in 1916 and to seventy-seven in 1917. In the case of cottons in 1915 the percentage obtained from the United States was forty-seven, while in 1916 it rose to sixty-two, and in the following year to sixty-three. In the case of provisions, the percentage from the United States rose from sixty-three in 1915 to ninety-three in 1916 and to ninety-seven in 1917. Among

¹ Trade and Commerce Monthly Report for Jan., 1917, p. vi.

other articles in which there was considerable increase in imports during the war, the greater part of which came from the United States, may be mentioned beans, corn, automobiles, sugar, silks, furs, woollens, fancy articles, fish, hides and skins, leather and manufactures, glass and manufactures, paints and colors, and cocoa.¹

Of the trade with other countries, which has been greatly altered, that with the enemy powers, it goes without saying, has been almost completely suspended. This trade before the outbreak of the war was chiefly with Germany; the imports from that country amounting in the last two years before the war to about \$14,500,000 annually, while the imports from Austria ran from \$1,600,000 to \$2,600,000 in the same years. There was also about \$500,000 of import trade from Turkey. The trade with the other Balkan allies of Germany was quite insignificant. The exports to Germany ran from \$3,000,000 to \$4,000,000 a year and to Austria and Turkey never amounted to \$500,000. The total trade with the enemy for the three years before the war was as follows:

	1912	1913	1914
<i>Total imports from enemy countries..</i>	\$13,151,000	\$16,682,000	\$17,803,000
<i>Total exports of Canadian products to enemy countries</i>	3,659,000	3,228,000	4,881,000 ²

It will be recognized that the total cessation of this trade was not of much consequence to Canada, especially as the goods involved could be, as a rule, readily obtained elsewhere, and the market for Canadian exports, except as to agricultural implements, has been greatly extended elsewhere. The chief lines of import from the enemy countries were drugs and dyes from Germany, running from two-thirds to a million dollars, also earthenware, china, machinery, iron and steel goods, settlers' effects, cotton manufactures, and woolen goods. In the matter of the imports of textiles generally,

¹ Compiled from various sections of Trade and Commerce Report, 1916.

² Trade and Commerce Report, 1916, Part I, pp. 40-43.

Germany was only sixth on the list, coming after France, Switzerland, and India. Other articles in much smaller quantities were sugar, graniteware, zinc, spelter, paints and varnishes, and perfumery. Austria sent much the same articles, though in much smaller quantities, with the exception of silks. The Canadian exports to Germany and Austria were chiefly wheat, flour, fish, some meats, and agricultural implements, the latter furnishing about one-fourth of the total export.¹ As already indicated, no great disturbance in Canadian trade resulted from the breaking of trade relations with the enemy.

In the case of the other countries we may note, first, the changes in our trade relations with the chief European Allies, France, Russia, Italy, and Belgium. In the case of France the imports, which amounted to about \$14,500,000 before the war, fell to \$8,250,000 in 1914-15, and to \$5,700,000 in the first full year of the war,² but have revived to the amount of \$5,981,000 for the eleven months to February, 1917.³ On the other hand, exports to France, which had been running from \$2,100,000 to \$3,800,000 before the war, suddenly expanded to \$14,500,000 during the year when the war broke out, rising to \$36,000,000 for the first full year of the war, 1915-16,⁴ and to \$57,000,000 for the eleven months to February, 1917.⁵ The special exports to France consist, in the order of their importance, of oats, flour, wheat, hay, harness and saddlery, beef and fish.⁶ Imports from Russia had not amounted to the full million even in the best year before the war and fell below half a million in 1913-14 and as low as \$103,000 in 1915 and \$124,000 in 1916. On the other hand, the exports to Russia, which before the war consisted almost entirely

¹ Compiled from various sections of the Trade and Commerce Report, 1916.

² Trade and Commerce Report, 1916, Part I, pp. 40-41.

³ Trade and Commerce Monthly Report, Feb., 1917, p. 1721.

⁴ Trade and Commerce Report, 1916, Part I, pp. 40-41.

⁵ Trade and Commerce Monthly Report, Feb., 1917, p. 1721.

⁶ Trade and Commerce Report, 1916. Various sections.

of agricultural implements, expanded considerably after the outbreak of the war. Large quantities of railroad equipment as also considerable harness and saddlery during the first year of the war were sent to Russia. Thus the exports which before the war had not risen above \$2,100,000 expanded to \$6,000,000 in 1915 and to \$7,000,000 in 1916.¹

Imports from Italy had risen to \$2,100,000 in 1913-14, but fell off the following year to \$1,500,000 and to \$966,000 for 1915-16. They revived, however, to over \$1,000,000 during the eleven months to February, 1917. On the other hand, the exports to Italy, which had not exceeded \$655,000 before the war, increased to \$4,800,000 in 1915-16,² this being part of the wheat commandeered by the Canadian government in the autumn of 1915. Belgian trade has practically vanished since the outbreak of the war except for goods sent on charitable account, especially in the first year of the war.

¹ Trade and Commerce Report, 1916. Various sections.

² *Ibid.*, Part I, pp. 42-43.

