

Quiz on World Trade

Our Total Trade:

1. In 1937 Canada ranked (fourth, tenth, fifteenth) in world trade.
2. In the same year some of the following countries exceeded Canada in value of total trade. Which were they—U.S.S.R., China, Great Britain, U.S.A., Argentine, Japan, France?
3. British West Africa and U.S.S.R. With which did we do the larger total trade in 1939?

Some Definitions:

4. Is a *cartel* a secret anti-tank weapon, a draft treaty, or a restrictive trade agreement?
5. What is *autarky*? Is it rule by a dictator, complete absence of government or economic self-sufficiency?

United States or United Kingdom:

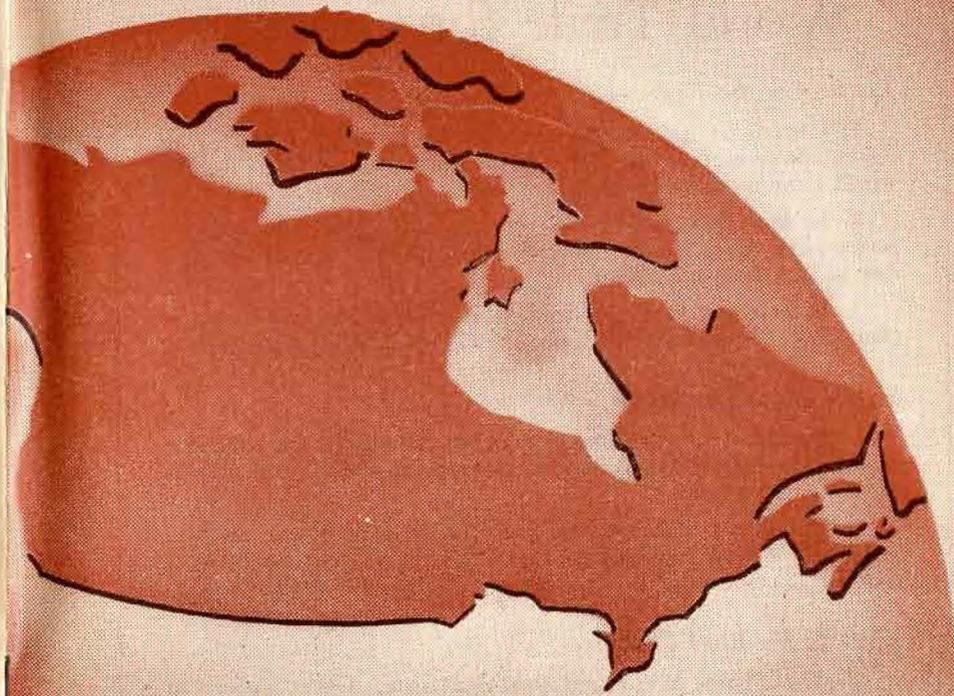
6. In 1939 we *imported* four times as much from one of these countries as from the other. Which was it?
7. To which did we *export* more goods from 1932-39?

Exports and Imports:

8. *Gold Bullion or Wheat:* Which was our more valuable *export* in 1939?
9. *Crude Rubber or Oil:* In 1939 we paid ten times as much for our *imports* of one of these commodities as for the other. Which cost more?
10. *Coal or Iron Ore:* In 1939 we paid four times as much for our *imports* of one of these commodities as for the other. Which cost more?

CANADA—WORLD TRADER

By FRANK A. KNOX



CANADIAN AFFAIRS



World Trade for Canada?

These Are the Facts—

1. Canada is one of the world's top-ranking traders. In certain pre-war years we have been, on a per capita basis, the world's foremost exporter, the world's second largest importer.
2. In four depression years our trade dropped from a prosperity-peak of well over two and a half billions to a depression-low of less than one billion.
3. In four war years our trade nearly trebled to reach an all-time high. It was \$1.6 billions in 1939, \$4.7 billions in 1943.

So We Must Decide—

1. Should we try to make ourselves as nearly self-sufficient as possible in an effort to save ourselves from the ups and downs of foreign trade, *or*
2. Should we make up our minds that trade is our destiny, and start pushing hard for measures that would not only revive world-trade but expand it far beyond its pre-war peak?

That Is No Easy Choice—

Heated debates have raged over that issue. Great nations in the past have committed themselves to the doctrine of national self-sufficiency. We can't. The article shows why.

It is not an easy article to read. That can't be helped. The subject is a tough one and calls for hard thinking.

It is important for us all to know how this expert gets to his reasoned conclusion that we must trade with the world if we want prosperity for Canada. Read it, and see if you agree.

A leading Canadian economist shows
why **TRADE IS OUR LIFEBLOOD.**

Canada—World Trader

By FRANK A. KNOX

WHAT are we going to do with all our wheat, our lumber or our aluminum after the war? Where are we going to sell all the motor cars, refrigerators and radios our munitions factories and Will Canadians alone be able and willing to buy all the houses and fill them with all the conveniences which we would have to manufacture if employment is to be maintained by sales in the domestic market?

More food we should use; more and better houses ought to be built. Household conveniences could be improved and much more widely distributed. But no Canadian in his senses would buy ten loaves of bread a day, try to live in two houses, ride in four motor cars or drive the neighbours to distraction with a radio in every room in his house. We prefer some bread and some bananas;

one house and a chance to see the world.

Radios for Bananas?

Unfortunately the natives of southern countries where the bananas grow are not as interested



"a radio in every room"

in more wheat bread as we are in bananas. They prefer basking in the tropical sun to listening to the radios we would like to sell them. Many of the household appliances we would like to buy are most cheaply made in the United States where mass-production for a huge domestic market cuts cost. But Americans don't want much of our wheat; our lumber competes with theirs. They will gladly buy our newsprint but want to sell us oranges, the latest plastic product, or a trip to Florida in exchange.

It is easy to say that Canadians should prefer good houses made of Canadian materials to cars that run on imported gasoline and rubber, or that they should "see Canada first" rather than waste our United States dollars visiting their relatives across the line. But as long as the consumer is free to run his own affairs, he will probably go on insisting on imported goods and foreign travel.

To sell the exports which pay for imports and travel is therefore

not just a Canadian problem; it is *the* Canadian problem. So this article will try to put across three points:

1. The importance of our foreign trade.
2. The reasons why it is important.
3. The prospects for trade in the future.

Canada's record as a world trader is surprising for so small a nation. Few people realize that in 1937 Canada exported more goods per person than any country in the world. In total value Canada's trade was exceeded only by that of Great Britain, the United States, and France.

As an importer Canada also has an impressive record. In 1937 she was second only to Great Britain in the value of imports per person; their total value placed her eighth on the list of importing nations. Let us see in concrete terms what this interdependence among trading nations is going to mean to Canada in the post-war world.

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CANADA BUYS AND SELLS

By contrast with manufacturing countries Canada exports large amounts of relatively few commodities—and of these wheat is not always the most important. In 1939 gold headed the list followed by newsprint and wheat. Amongst groups of commodities farm products predominated, followed by forest products and metals.

Most new countries concentrate on a few products which can be produced cheaply enough to permit transportation for long distances over land and sea to the markets of the world. Low production costs come from rich natural resources and volume production which only world markets can absorb. Our exports must come therefore from our rich prairie land, our mines and the trees of our eastern and western forests. So far as possible we reduce the volume of the product

to be exported, or change it into forms more likely to sell, by further processing at home. Pulpwood was turned into newsprint, coarse grains into bacon, wheat into flour.

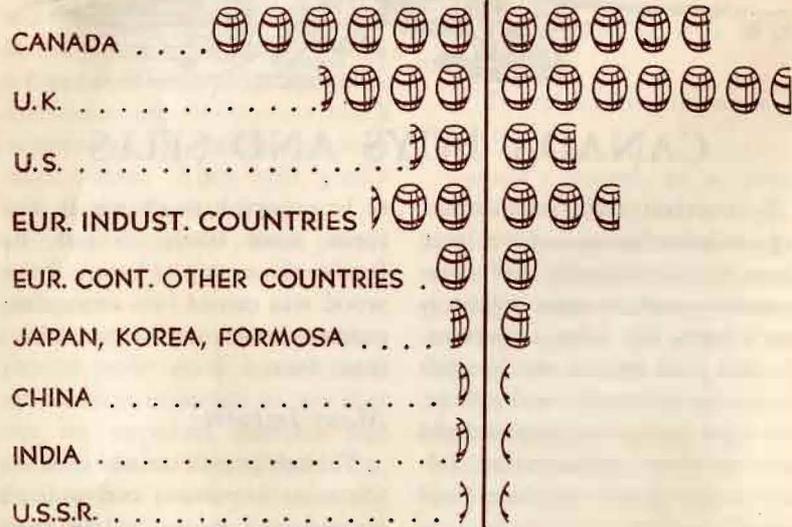
Many Imports

Though petroleum and coal are the most important commodities among our imports, in 1939 their value is dwarfed by that of our chief exports. We bought forty million dollars worth of crude oil but sold a hundred and fifteen million dollars worth of newsprint. Coal imports totalled forty-six million dollars but gold exports totalled one hundred and eighty-four. Apart from crude oil and coal, no individual import amounts to much. We buy a very great variety of things, of which iron and its products including farm and other machinery, automobiles and parts are the most

VALUE OF EXPORTS AND IMPORTS PER PERSON IN CERTAIN COUNTRIES IN 1937

EXPORTS

IMPORTS



EACH SYMBOL 15 U.S. DOLLARS

important, followed by farm products and non-metallic mineral products.

Many people would say that we import these things because we have not yet learned to make them in Canada, and that when we do so this unfortunate dependence upon other countries will come to an end. The new skills we have acquired and the suitability of our minerals and forest products as raw materials for some

of the new products should help us here. But many Canadians do not bear in mind, in discussing such possibilities, how much our home manufacturing itself depends upon imports.

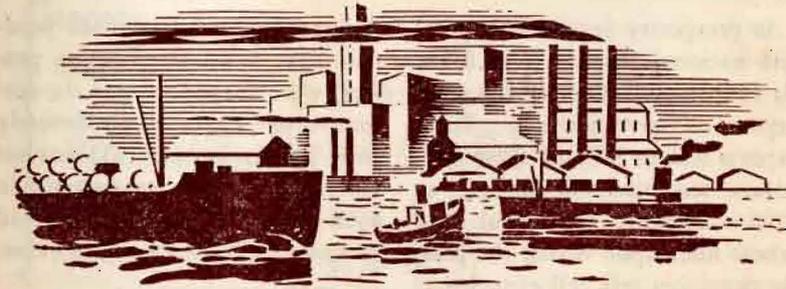
Oil, Iron, Machinery

Our permanent dependence upon imported crude petroleum is obvious. Canadian production in the north-west may rise but the cost of getting the oil out to

markets will continue to be high. Extended development of hydroelectric power is likely to reduce the relative importance of coal; but central Canada will continue to require much of it from the United States. More important, however, is our import of iron and its products, which heads the list. Some of our industries are still largely assembly plants making extensive use of American parts. In 1939 automobile parts valued at \$41 million ranked third on the list of our imports. Most other Canadian industries buy much of their complicated ma-

chinery in the United States.

Why import such machinery? Why not make it here? Because our relatively small domestic market makes their manufacture too costly. When we get the market we can certainly make them. The rapid expansion of the machine tool industry during the war has proved that. Given fair competitive conditions in world markets after the war, the Canadian machine tool industry might find large enough volume of sales at home and abroad to make it possible to keep this new Canadian industry going on a sound basis.



TRADE IS OUR LIFEblood

Almost all the sources of employment and income open to Canadian workers thus depend upon a thriving world trade. The people who produce exports, those who process them, and those who transport them to our borders

depend upon exports directly. A lot of other people in our domestic industries in turn depend upon the demand of these producers, processors, and transporters of exports to keep up the volume of production upon which their own stand-

ard of living rests. Without a high level of national income our imports of ready-made consumers'

goods, of raw materials, and of machinery must be small also. Trade is our lifeblood. Study this table.

Exports and National Income, 1928, 1933, 1937

(1) In Millions of Dollars

	1928	1933	1937
1. Merchandise exports.....	1,355	532	1,010
2. Exports of wheat and wheat flour.....	494	139	139
3. Canada's national income.....	4,641	2,632	3,829
4. Income of the prairie provinces.....	1,146	455	696
5. Gross cash income from prairie agriculture.....	600	175	280

(2) In Percentages, 1928 = 100%

6. Merchandise exports.....	100	39	75
7. Exports of wheat and wheat flour.....	100	28	28
8. Canada's national income.....	100	57	83
9. Income of the prairie provinces.....	100	40	61
10. Gross cash income from prairie agriculture.....	100	29	47

In prosperity year 1928 exports and national income were high. By 1933 the full effects of the great depression were obvious. Total exports fell to 39% of their 1928 values and national income to 57%. Exports of wheat and wheat flour upon which the prairie provinces rely fell even lower to 28%, and the income of all residents of the prairies to 40% of its prosperity level. That the farmers took a still more drastic cut is shown by the fall of their gross income to 29% of the levels of 1928. Prairie farmers' net cash income almost vanished.

This great fall in regional and national money income so reduced

demand for Canadian-made products that most construction projects were abandoned and the current volume of production severely cut. Employment in 1933 was but three-quarters of its volume in 1928 and merchandise imports had shrunk to 32% of their 1928 value.

Little Trade, Low Incomes

What less foreign trade would do to our economic situation is best revealed by considering the extreme case of countries with almost no trade at all.

Where there is no trade within or between countries each family must make sure of its food supply by cultivating land. We too

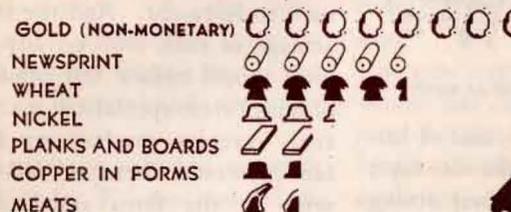
CANADA'S LEADING EXPORTS AND IMPORTS IN 1939

EXPORTS

(a) BY GROUPS:

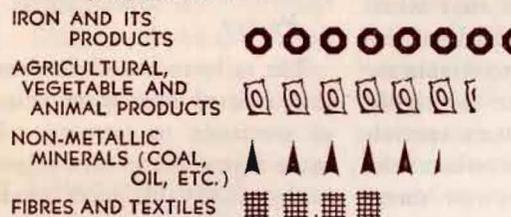


(b) BY LEADING PRODUCTS:



IMPORTS

(a) BY GROUPS:



(b) BY LEADING PRODUCTS:



EACH SYMBOL 25 MILLIONS OF DOLLARS



"The steam engine put to work"

easily forget that for most of history most of the human race have been forced to get their living directly from the land and that most people still have to do so. And everyone knows that when that is the case, standards of living are low and tend to remain so.

Modern agriculture is highly productive when farmers specialize by raising crops where the climate and soil best suit them. Production of large amounts of one crop makes it profitable to use specialized machinery. Under these conditions product per worker is high. One farm family today may grow enough food for itself and two town families as well. In Oriental countries it takes four or five farm families to raise enough to support themselves and one town family.

Farmers Need Trade

If trade ceased in Canada it would be impossible to live on the open prairies, except miserably as the Indians did. Farmers would have to move to the wetter parts of the country where the variety of foods necessary for health could be raised. But in no part of the country does the climate and soil suit all the crops which would need to be raised. And the small acreage of each crop on any one farm would reduce the economy obtained from specialized machinery. Average product per farm family would therefore fall and with it the farm standard of living.

Freedom Through Steam Power

The railway and the steamship emancipated man from this sort of servitude to farming. They made it possible to raise relatively bulky, low-value farm products, at great distances from markets in places where the climate was best suited to the crop, and land abundant and cheap. Had the steam engine not been put to work in transportation, its use in the factory would have made no such changes in the conditions of life as have come about since 1850.

To Canadians this should be very clear. By joining the Mari-

time provinces to Upper Canada, in a free trade area, the Fathers of Confederation hoped to encourage regional specialization and thus raise the standard of living. For many long years success was not apparent because just as soon as Canadians specialized on fishing, lumbering or wheat growing, they turned out much more than could be sold in the new Dominion. So the long, wearisome search for markets which forms so large a part of our economic history had to be resumed.

No; there is no hope in giving up all trade. If Canadians did so, most of them would have to be farmers. And their standards of living would not be much to brag about. They would be the slaves of the land once more as their fathers were before in the old world.

More Trade—Or Less?

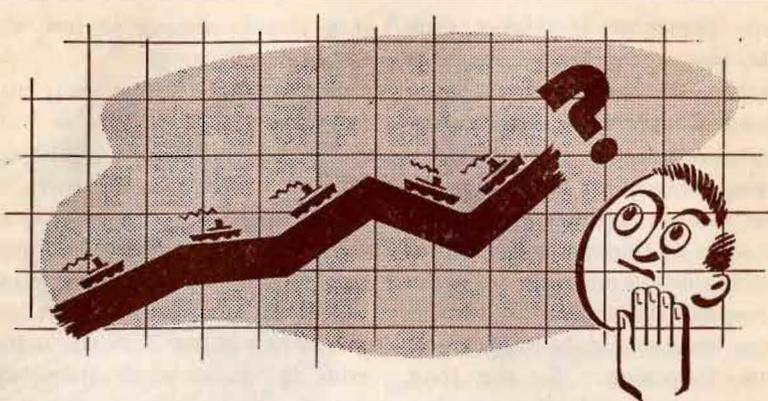
Though this is where the road of trade reduction leads, we in Canada are not likely to have to travel it that far. The real choice is between more and less foreign trade than we have had. But we wouldn't have to lose many foreign markets before some of our wheat farmers would have to find some other means of making a living. They would be forced

into mixed farming or into the towns.

If the wheat farmer went into mixed farming he might be hard put to it to sell much of his produce; if he went to the town he would meet the competition of those already there in his search for a job. Falling farm demand would at the same time reduce production in our domestic industries and cause some unemployment.

In time some of the unemployed would find work making substitutes for the goods we could no longer afford to buy from other countries. Others would have to live largely off what they could raise on their own land. Though we would have more industries, all industries would be working for smaller markets. So they would lose many of the economies of mass-production. Production per man in both industry and agriculture would shrink.

Scientific improvements might break the consequent fall in the standard of living. But science can be applied equally well to boost the productivity of our present industries, if we can keep and expand our trade. Therefore, we would be bound to be worse off if forced to live to ourselves more than we have done in the past.



OUR FUTURE TRADE

If then Canadians must have foreign trade, our aim should be to increase its volume and decrease its variation from year to year. If nineteenth century experience is still worth anything as a guide, expansion is most rapid when trade is freest. Given a chance to trade freely with all nations, Canadians can probably achieve a low enough cost of production to push in the world's markets against all comers their own special products.

The superiority of American, British or German manufacturing before the war rested to an important degree on large home markets. Give the small nations half a chance in these markets and the picture in world industry would change radically in a gen-

eration. Our best chance, and the best chance for all nations, to expand the volume of world trade and production, is to help create as large a pool of trading nations as possible.

The Trading Bloc

If we fail to form a world trade pool, group trading will be the next best. The larger the group and the more varied and complementary the export products in it, the better. The typical group would probably have at its centre one of the great manufacturing powers and as partners or satellites a group of countries producing raw material and food. Trading would have to be relatively free within the group; otherwise there would be no advantage

in belonging to it. Only such manufacturing industries could survive in each member of the group as were efficient enough to do so in open competition.

Fixed rates of exchange between the currencies of the group would probably be the rule; and the common monetary policy which this involves would have to be worked out amongst them. Trade between groups would be carried on under greater difficulties.

It is easy to name the countries which might act as the nucleus for such groups. Britain might head a sterling bloc, the United States a dollar bloc.

Canada's Dilemma in World Blocs

Leaving sentimental or political considerations quite out of consideration, the choice for Canada would be puzzling indeed. For years past our trade with the United States has been increasingly important as our exports of forest and mineral products grew. American tourists' expenditures in Canada might become one of our most important exports. Yet our farm products must still find their market for the most part overseas. To join either group would mean important losses to some Canadian regions and drastic readjustments everywhere. Clear-

ly, access to the markets of one group would be a very poor substitute for access to both.

Search for Stability

Why then should any Canadian in his senses favor bloc trade against world trade? — Because selling on the world market has imposed wide fluctuations on Canada's economic life. People think of them and say, "Better steady market than expanding market. In a trade-bloc you can at least divide up trade so as to give every nation a sure position."

But that is not the only way by which we can hope for greater stability of economic conditions. We are now creating by various



"the larger the group the better"

social security measures the means by which the impact of trade fluctuations, when they do occur, will be spread more evenly over the community. As time passes the experts will gain experience and skill in taking measures to cushion domestic business against the full effect of sharp changes in export income.

It is not unreasonable to hope, therefore, that we might get from a world of freely trading nations both expansion in our trade and standards of living and a greater measure of stability than we have had in the past. From the smaller trading group we are sure to get less expansion; to find stability even there may be more difficult than we think.

Some Conclusions

Canada's growth and progress has been made possible by foreign trade. Every aspect of her econ-

omic life has rested on it. She cannot abandon this basis of her existence without disaster. Should a serious reduction in foreign trade be forced upon us, we must meet the emergency with plans for the fullest possible exploitation of domestic trade and the lowest cost production achievable in such export trade as we may thereby retain.

But no such "shape of things to come" should now be accepted by us fatalistically. The plans for reconstruction in the monetary and other spheres which are already under consideration by the United Nations show awareness of the dangers ahead and confidence that they can be surmounted. Canada can exercise great influence in United Nations councils in support of as large and as free a trading world as may be created. In her own interests she should make her influence tell now.



If you have any comments, write the Editor, *Canadian Affairs*, Wartime Information Board, Ottawa. Your letters will not be for publication. We want your suggestions, so we can do a better job.

More on Rehabilitation



Our House of Commons has been sitting now since January 26. The debate on the Speech from the Throne is over. Now the Army estimates are before the House and the Minister of National Defence has been answering questions of all kinds from Members. Rehabilitation came in for a lot of discussion during both debates. Members of all parties want to know what the government is planning for the servicemen and women in the post-war world.

One comment was of special interest to us because of the reference to discussion groups in the forces overseas. The M.P. in question is a member of the R.C.A.F. He has just returned from Africa to resume his duties in Parliament. This is what he says:

"My squadron had an open forum of both aircrew and groundcrew to discuss these problems. That little meeting on a forward landing ground at dusk was to me the most educative and interesting experience I have ever had. Out of it emerged one bald bare fact. These men do not want charity or pity in the way of being given a hand-out. All they want is the same fighting chance in peacetime as they are now taking

for their country in wartime. I think I can summarize briefly as follows the collective opinion of their meeting that night:

"When the war broke out and our country needed us the government accepted our services. They took us and trained us in the best manner in the very best of training institutes. During that period of training they clothed and fed us and provided full medical and dental treatment. They paid us a basic rate of at least \$1.30 a day and full service dependents' allowances to our dependents, amounting in all to \$75 a month for a single man, \$110 a month for a married man and \$134 per month for a married man with two children. When we have served our country and returned to train for peace, we want, first of all, jobs. If we cannot fill these jobs we want the necessary training. We want jobs, not of death and destruction but of peace and construction under similar conditions of pay and allowances.

"With this simple demand no one can find fault. I believe the people of Canada themselves are willing to give these boys that much."

Comments like that show that problems of rehabilitation are

being discussed, and discussed from the point of view of the serviceman.

Another fact to be noted from all the speeches is that the plans of the government are still subject to change. Suggestions made are being considered. The War Service Gratuities are to be discussed in the House of Commons sometime soon. The clothing allowance has been under criticism from those who feel that it should be considerably increased. On February 24 the Minister announced that in future servicemen and women in all services would be allowed to keep one uniform on discharge.

At present the clothing allowance is \$65. It used to be \$35. It is not paid to officers. It is not paid to people discharged for compassionate reasons, at their own request.

The rehabilitation grant is given at present to all who have completed six months' service. It amounts to one month's pay and allowances, regardless of length

of service over six months.

One suggestion has been that this grant should be on the basis of one month's pay for every six months of completed service. That kind of suggestion will be considered when the whole question of war service gratuities comes before the House.

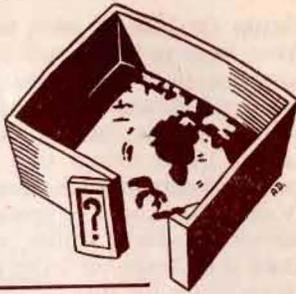
In the meantime there are a number of individual questions not covered by our article ("Future for Fighters" — No. 2 of *Canadian Affairs*). We have had a number of enquiries and have tried to get definite answers to each from the proper authority.

Enquiries are welcome. Sometimes they serve to draw attention to cases that had been overlooked in drawing up the regulations. Sometimes they deal with matters on which government policy is not settled, and in that case a definite answer isn't possible. In any case, make an effort to find out what the official plans are. All available information will be put at your disposal.

CANADIAN AFFAIRS PICTORIAL. Our first pictorial, "The New North", was held up by paper shortage. We hope to get the paper and send it out concurrently with our second pictorial, "Canada—World Trader." Future pictorials will be coming out once a month.

In maps, pictures, pictographs each pictorial tells in graphic form the story told in a full length article in *Canadian Affairs*. Posted in prominent places in barracks, canteens, lecture-huts, etc., the pictorial should help draw wide attention to the subjects that are discussed more fully in *Canadian Affairs*.

Questions for Discussion



1. Is there hope for freer world trade after the war?

NOTE: People divide easily into optimists and pessimists on this question. The latter feel that after the war there will be the same urge towards national self-sufficiency as before. Each country will seek to protect its own manufacturers, subsidize its own farmers, to make itself self-sufficient, no matter what the cost.

There seems to be some ground for believing that this is not a true picture of post-war conditions. Nations strove to be self-sufficient because they foresaw the threat of war and feared that sources of supply for some of the goods they imported would then be cut off. Germany, Italy and Japan strove for an artificial self-sufficiency, as part of their scheme for world domination.

The victory of the United Nations, the continuing co-operation among the great powers along the lines laid down at Moscow, Cairo

and Teheran will remove the threat of war as far as the foreseeable future is concerned. The next item on the agenda will be the reconstruction of devastated Europe and Asia. There will be a tremendous demand for goods of all kinds. The British Ministry of Food estimated recently that Britain will not be able to resume a diet of plentiful meat and dairy produce before 1950. The whole of Europe from London to the Volga will have to be rebuilt. That is not an overnight job. UNRRA is charged with immediate relief measures but a long-term job is in sight.

Then too great new markets are opening in India and China. The progress of those countries towards industrialization will certainly be accelerated after the war. Rising standards of living there mean new markets for our produce. That means more trade.

2. Are we better off when we export more and import less?

NOTE: The old-fashioned idea was that a nation's prosperity turned on having a surplus of exports over imports. That was

its "profit" from trade. You had to sell more than you bought. Actually it doesn't work that way. First of all there are certain

things (rubber is one) that we have to import and will have to keep on importing until science can devise some cheap homegrown substitutes for them. There are certain other things that can be produced abroad much more cheaply than they could be produced by us—or produced more cheaply than the things we have to offer in exchange for them.

It is foolish to think of the nation's budget alone and overlook the budgets of the individuals making up the nation. The latter are more important. People have to be assured of a decent

3. *What obstacles stand in the way of freer trade?*

NOTE: Some of them arise from national policy—the desire to be self-sufficient regardless of the cost. In a peace-guaranteed post-war world such considerations will not be so important.

The author mentions other ones: First, the fact that people don't realize the need for a world market. Secondly, the opposition from local interests who would suffer if tariff barriers were reduced.

Some of our industries enjoy a protected position because of the tariff. They would suffer by competition from more efficient, less-expensive-to-operate industries in other countries. That danger is less of course in an expanding market where there are not enough goods to go around.

No doubt in some cases the government has to take a decision on this kind of a question. There are two choices. One is to keep

income. Whether they spend it on imported goods or goods produced at home is not so important.

We export for two principal reasons—because we have a surplus of some things above our home capacity to consume—and because we need credits to allow us to pay for essential imports. We import certain things we need.

Imports are true wealth. They increase the amount of goods available for distribution in the country. They enable us to use our own resources to better purpose. It is true they have to be paid for—but so do most things in this world.

the tariff at a certain level. This in turn means that our consumers are paying higher prices than people in some other country. The advantage is that the industry keeps going and so provides employment. The second choice is to lower the tariff, reduce our cost of living generally, but run the risk of putting our own industry out of business and so causing unemployment.

Of course it should be mentioned that quite often industries which claim they cannot survive the slightest lowering of the tariff, do get on quite successfully when duties are cut. It is also a fact that infant industries, sheltered by a tariff wall, have made large profits for their owners at the consumers' expense.

American manufacturers now seek freer trade. The report of the post-war committee of the National Association of Manufac-

turers says: "We want world conditions which make it safe for this nation's manufacturing plants to devote themselves to making civilian goods instead of weapons

of destruction. We can enjoy greater domestic prosperity if other parts of the world, or at least most of it, are able to trade with us and each other".

4. *Should combinations in restraint of international trade be illegal?*

NOTE: Many countries, including Canada, make it an offence for a group of people to combine to eliminate competition in price, supply, or quality of goods. Our law is found in the Combines Investigation Act and in the Criminal Code. Most people would agree that these laws have not always achieved the purpose aimed at. But at least they do indicate the feeling among Canadians that monopolies should not be allowed to keep prices up at the expense of the public.

A cartel is an agreement among a group of producers who together control the greater part of the production of a certain commodity, to divide the market among themselves, or to restrict produc-

tion at a certain level. The idea behind this kind of agreement is very simple. It is to avoid competition and maintain prices by restricting the supply of that commodity available for the market, and by assigning a definite share of the market to each producer. Agreements like that often break down in good times when each member sees a chance to unload his goods.

However, the question to discuss is whether such agreements should be illegal when applied to international trade, just as they now are illegal in our own country. If they should be banned, how can the ban be enforced? That would be a problem for a future world organization.



Answers to Quiz

1. Fourth.
2. Great Britain, U.S.A., France.
3. British West Africa.
4. A restrictive trade agreement.
5. Economic self-sufficiency.
6. We imported four times as much from the U.S.A.
7. We exported more to the United Kingdom.
8. Gold bullion.
9. Oil.
10. Coal.

Articles which appear in Canadian Affairs should be regarded as expressing the views of the individual Canadians who write them. These are not necessarily the views of the Department of National Defence, the Wartime Information Board, or any other Government Authority. Indeed, occasions will arise when in order to complete the picture of some aspect of wartime life an issue will present opposing views of different authors on one subject.

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