

The Economic Background of Unemployment in Canada

By STEWART BATES

IT makes one feel a little uneasy to have to discuss in a short time the wide background of unemployment in Canada. And it makes one feel a little unwise, when the attempt has to be made in the presence of business men who are in daily contact with the whole matter of Canadian employment.

Nevertheless I have to speak about the economic background, and I shall begin by stating what I am going to maintain. It seems that the Canadian economic background is quite clear in one-half of the picture, but dim and hazy in the other. The dim part would be difficult to penetrate even if Canada's sole economic concern was with her external markets, but the dim part is rendered even more impenetrable by the fact that these fluctuations in external trade impinge on an economic system that has peculiar structural qualities. As a result, it is sometimes almost impossible to see whether a change in the economic position is due to a change in external trade, or to the peculiar and changing structure of the internal economy, or to the fact that the structure of the economy is such that it exaggerates the effects of changes in external trade, and thereby leads to extremes in the fluctuation of our national income.

The clearer part of the background concerns the economic relations within Canada itself. When I say that this part of the problem is clearly seen, I do not mean it is easy to handle in practice. Indeed the solution is difficult, perhaps impossible. But there is some

measure of agreement about the internal relations between the different regions and the different industries of Canada. It is easy to see that the country is fairly clearly demarcated into different economic regions, and that geographically it resembles a string of sausages, some much more meaty than others, but each separated from its neighbour by a wide stretch that has to be linked with a very expensive string—namely the railway problem. And the extent to which these sausages expand and contract between summer and winter represents a seasonal problem that is paralleled in hardly any other Anglo-Saxon society. We are not all agreed as to the causes that produced the regionalism. We generally do agree that the distribution of the natural resources has had much to do with it, and that the economic influence of the St. Lawrence waterway has also helped to make a big sausage in Ontario, and a slightly less big one in Quebec: and there is some measure of agreement also that the concentration of manufactures, and the emergence of large-scale firms in the central provinces, has been assisted by the Canadian tariff, and by the localisation of investment and banking in these provinces. There is a little less agreement, but still some, concerning the effects of federal policy since 1930, especially the tariff and the monetary policy (i.e. exchange policy in the years after 1931), on those areas of the country that are specialised for export. And there is a fair measure of agreement that, since Canada is specialised in regions, the central provinces both in manufactures and in primary products, and the Maritimes and the Prairies very largely in primary commodities that are sold on the world market, there is a close relationship between employment in the

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home manufacturing trades and the income of the producers in the exposed areas. When the exporting regions enjoy high returns, they increase their purchases from the manufacturing areas of the centre (and their borrowings), and buoyant external trade quickly reflects itself in the protected industries serving the Canadian market. In conditions of depressed external trade, the effect is again passed to the industrial parts of the central provinces, both to labour and to creditors. But we might notice in passing that while the export areas quickly communicate their good and bad returns to the central provinces, the centre need not communicate its good and bad returns to the east and west to the same extent. If increased income accrued to the central provinces, (e.g. expansion of income from gold) the resultant increase in the centre's purchases from the Maritimes and the West, tends to be small, because the outlying areas produce mainly primary commodities, for which the centre's demand is not elastic, and because the sort of commodities that are sold to the centre are those in which the producers operate in competition, and they sometimes lack the organization to pursue price policies that would allow them to take advantage of any increase in the level of income in the central provinces. And so, any improvement in income that serves to swell the size of the sausages in the centre, need not improve those at the ends of the string. But if any external trade improvement enlarges the Maritimes or the four western sausages, they pass some meat to the central sausages when they increase their purchases of home-made goods and services.

Now while the nature of this part of the background is not difficult to see, there is great practical difficulty in formulating policies that might reconcile the conflicting interests of the different regions. And these difficulties are perhaps more political and social than economic. If you want a catalogue of these practical difficulties, it is available in the evidence presented to the Rowell Commission in the past year. But I warn

you that when you have finished the five millionth word, you will probably find yourself in the unhappy position of having a few more questions to ask, but you'll be so bowed down with the weight of evidence that you'll probably be unable to raise the voice to ask your questions. But when some lapse of time has restored you to normal, you may find yourself summing up these practical difficulties by asking two kinds of questions. The first kind concerns the regionalism, and you may ask, Are regional interests in Canada more fundamental than national ones? Or putting the same question in another way, How far is the taking of effective action against regionalism in Canada incompatible with the Canadian view of government? Or put still differently, Are regional differences so conflicting in Canada that we must have ten governments each pursuing with some independence, what it thinks its best aims, and must the consequent lack of co-ordination in government fiscal policy, be the price that Canadians must pay for their sectionalised economy? So long as the Canadian people reach no decision on these questions, it seems likely that governments will continue to conflict over regionalism, and try to steal a march one over another, rather than to concern themselves with any common enemy.

Distinct from that, you may find yourself asking a second kind of practical question. How far is Canada content to try to continue her great dependence on certain exports in a contracted world market? Some Canadian areas are specialised for export, but there is some evidence, and now for some years, that some export areas are faced with serious conditions in their markets. It can hardly be expected that the provincial (and federal) governments can continue to maintain income in such regions at the expense of growing debts. The preservation of uneconomic regions, or of uneconomic industries, is an expensive business, even if this happened to be a rich country.

And this brings us to the second part of our background, the fact that is less

clearly seen. I have already said that it is difficult to disentangle the effects of our export position from those of our own internal structural problems. They both affect the level of our income, and the level of our unemployment, but how to separate them is the problem.

About our export position, little need be said. We know that this country derives a large proportion of its export income from a few great commodities (wheat, pulp and paper, non-ferrous metals and gold). There are also some quite important exports of manufactures, and some of services (particularly to tourists). But it is true that much of the income comes from a few great commodities. And it is true that most of our exports go to two countries, the United States and the United Kingdom. If they simultaneously enjoy prosperity, so do we. If one enjoys prosperity and the other suffers depression (or stagnation), we tend to take a middle position. But we enjoy that American and British sunshine only so long as the international prices of our great commodities are sufficiently high to yield us satisfactory returns. Even a combined boom in the United States and Great Britain, which happened to increase the demand for our wheat, would not bring much warmth to the west if the price of wheat were only 35 cents per bushel. And so while we must always have some ups and downs according to the economic fortunes of the United States and United Kingdom, we must always be vitally concerned with the international prices of our great exports. In wheat particularly, we are open to the vulnerability of being important in the world market. And the wheat position tends to become more disquieting. From 1926, when Europe had restored her wheat acreage to its pre-war levels, to 1938, there has been a series of increasing difficulties. The agricultural revolution in Europe that has followed the technical and political revolutions has been of prime significance. The increase in tariffs since 1930, and the gradual transition of many European economies to a war basis, induces them to grow wheat almost irrespective of

its cost to them. Among our competitors, exchange depreciation after 1930, and now the Argentine's determination to expand the Pampas as a wheat economy, have increased other wheat supplies. And consequently we cannot be sure what will happen to prices if we enjoy good harvests. How long does the government think it can subsidize the price of Canadian wheat in such conditions?

But it is unnecessary for me to emphasize the importance of the export position in wheat, or in any other commodity on which some Canadian communities depend. The more important and more baffling question comes from the connexion between that export position and our internal economic structure. Has the slowing down in the rate of Canadian economic progress—a change that has characterised the whole post-war period, with the exception of the years from 1925-28—been connected mainly with the export position or with our own internal position? Is it perhaps a fact that the Canadian economy is rather like a not-too-strong person who from 1925-28 enjoyed bright sunshine from the United States and United Kingdom, and began to look well. And were the periods 1921-24 and 1929 to the present, periods in which the same not-too-strong person began to reveal his inherent weakness, because the climate was less favourable? In short, does the change in the rate of economic progress since the war mean that the Canadian economy can function smoothly only under the accident of simultaneous booms in the United States and the United Kingdom, combined with good prices for our main exports?

The question about our fundamental internal economic constitution is usually dismissed with the reminder that Canada is a young country yet. That is true, but it does not follow, from that fact alone, that she is destined to have a bright economic future. We have already spoken of her internal regional differences, and of her considerable dependence on the export of not too great a range of commodities. These conditions mark her youth, but they also indicate

her fickleness. She can't make up her mind whether to be a single country or to have some sort of marriage of convenience between the provinces. And some people, older than I, take fright at her expensive habits, her attempt to maintain a style equal to that of her much richer neighbours to the south, and they take greater fright at the light-hearted way in which she piles up debts against herself. These older people, before the war, didn't mind the debt so much; the lady was beginning to take a place in the society of nations and she needed to equip her household, which promised to become an attractive one. The war caused a disappointing addition to that debt, but now it is realised that the lady has not repaid even her pre-war debts, and now when bad times come, she piles new debts on the old, a 40% increase since 1930. She is still a young country, but with habits that the average citizen would not like to have his daughter acquire.

Perhaps the background of the Canadian economy is becoming confused for you, with its sausages and its fickle and expensive young lady. But we have still to add something more on this matter of the internal structure of the economy. We have said that there has been some slowing down of the rate of economic progress since the war. Before that time, all Canadian economic indices rose rapidly but the curves flattened after the war, and some in particular have sagged badly. And if we enquire into the reason for the structural change since the war, we are driven to the recognition that the pre-war rate of progress depended largely on the extensive expansion of our frontiers, on the conquest of new sources of supply. The frontiers were pushed into Canada's natural resources, new mineral and lumber areas were opened, and new agricultural areas of high fertility. But, since the war, frontier expansion has been confined to a few wheat and mining territories. And in some areas, already we are recognising that their natural resources are not without limit, that much of the income we have gained from them in the past was really from the sale of national

capital. In some forestry and agricultural areas, there are disquieting evidences of worn-out communities. This is not yet quite so evident in the mining industry as a whole, but we must not allow the accident of the high price of gold since 1931 to make us think that the high returns from the gold industry have been due entirely to great discoveries of new resources. And of course in the Maritimes we do not have to be told that mineral areas wear out. It is true that the Laurentia Shield may contain unknown resources, but recent experience is surely beginning to teach us that we can't afford to be optimistic about conjectural resources. Even in the prairies, the recent soil surveys show that the vacant land which is economic—even with government support of wheat prices—can absorb, not millions, but only some thousands of people.

Now while this limit to our resources has prevented further extension of frontiers, and in some instances has necessitated a retracing of steps, the consequent retardation in the growth of our national income has been in part compensated by a more intensive development of industry within the country. But that development of new industries has been limited—e.g. to pulp and paper, non-ferrous metals, electrical apparatus, saw mill industry, automobiles—and it has been confined mainly to the central provinces. Nevertheless there has been an increase in industrial diversification, and in American branch plants, with also some slight shift in occupation toward service industries, public administration, transport and recreation in the post-war period. To that extent, Canada has begun to provide a slightly larger proportion of her income from home investment rather than from export of resources. But clearly if this intensive industrial development is to compensate fully for the apparent change in our resources and exports, and still more if we have to depend greatly in the future on home investment for our income, it is imperative that no discouragement should be given to the kind of skill and enterprise that is necessary to innovate new goods, or new qualities of goods,

new methods of production, and to adapt them to new markets (even within Canada). Indeed, positive encouragement may be necessary, as the National Employment Commission has suggested in various ways.

But two serious consequences have resulted from the flattening out of our rate of economic progress. Firstly, the slow realisation that no longer is the rate of progress itself the solvent of all our economic difficulties. Before the war, the expanding structure of the economy took care of many difficulties. So rapid was the progress that if industry or governments followed wrong policies (or acted inefficiently), it scarcely mattered. The rate of progress took up the slack. But the cessation of the previous rate, and the smoothing out, has left some problems in its wake, and we can't expect some future boom to solve them for us. The social stratification is becoming more marked in the country and the pressures that this gives rise to, are gradually being put on business and on the governments. Equally important is the fact that the employment opportunities for young people have been few: we are still affected by the pre-war immigration which has distorted our age-structure, giving us a large block of people now between 45-60. Their presence has reduced the employment opportunities for young people, and as the last census showed, there was an unusual and disturbingly large proportion of young people in occupations like agriculture, forestry, and labouring.

The second serious consequence of the changed rate of progress arises from the social responsibility that has been laid on industry and government. The new situation demands that they both pursue the best social ends, but before we can be sure that they know what to pursue, we must have additional knowledge about our resources, and we must know the extent to which un-economic industries are being propped by government help. But not only must the best social ends be pursued; they must be sought in the most efficient way. But to test efficiency is not easy. Before we can do that we

must discover if governments at present are trying to do things they are not competent to do. In short, the present economic position, and the future prospects, seem to call for a reconsideration of those Canadian habits which have given us great debts without having at the same time provided our economy with some more sound stabilisers of income than now exist in Canada. And what would happen to our debt structure in the event of being involved in another war, is something to be afraid of.

We admitted in the beginning that this second part of our background was rather dim. And we may sum up the second part by saying that there is a conflict of view at present. Some people believe that our worst enemy is the fluctuation in external trade, while others think that they see lurking beneath this snake a more insidious enemy. It is Canada's chronic tendency to hope for an income from what nature provided, the dependence on debt when nature shows the limitations of her resources, the consequent disparities of standards of living in the different regions, and the effect of that in rendering co-ordinated government policies more difficult. Whether this second view is more important than the other, is still too early to say. But some reasons exist for giving thought to this second view. I might summarize them as follows: The existence of distressed areas (i.e. those suffering what seems to be more than temporary economic retardation), the failure of the construction industry to revive in the boom of 1936-37, the low level of our national income in that boom (only half way between the 1929 peak and the 1933 low), the extent to which governments were still gaily unbalancing the 1937 budgets that they had striven hard to balance in the dark years from 1931-3, the extent to which these budgets are concerned with trying to transfer income to creditors and to needy persons, the extent to which our banking system invests in government securities rather than the old-fashioned industrial loans—these are all evidences of some far-reaching change in the internal structure of the economy.