

*War and the Maritime Economy

By W. F. LOUGHEED

IN the light of Canada's past experience as a belligerent it is natural to expect that the present war will tend to alter the economic as well as the social structure of the country. The resultant effects, of course, will depend upon a number of factors; particularly, the duration and intensity of the war and the extent of Canada's participation. The present examination, therefore, deals in so far as possible, with initial effects of the war and their possible influence on the Maritime economy and particularly the economy of Nova Scotia.

The economic resources of the Maritime Provinces and the manner in which they are utilized are included in the general term "maritime economy". Over a period of years certain relationships between groups within the province have been created and maintained both by governmental and private activities. Since each geographical and political sub-division of the country has its own peculiar set of problems, such changes as may occur as a result of war are of vital interest to the respective areas.

It must be remembered, at the outset that the Maritime economy is an integral part of the Canadian economy. Thus, changes in the economy of Canada as a whole will result in repercussions throughout the various groups within the country. While it is natural to consider the province of Nova Scotia as an entity in itself its activities are to a great extent subject to changes beyond the ability of the province to offset. Rearrangements of the monetary system, changes in Dominion fiscal policies and shifts in both domestic and foreign consumption and production all have an effect on the economy as a whole and ultimately on

the various sub-divisions. Hence, in order to appraise the initial effects of war on Nova Scotia, it is necessary to consider the possible repercussions in Canada as well as in the province.

Although the war is only weeks old, certain definite features are beginning to emerge. The Canadian economy at the present time is not in a position to produce many war materials merely in the hope that they might be used. Industry is not so geared physically or financially. The major stimulus to Canadian industry centres on (1) the needs of Canada in preparing for and carrying out defensive operations on this side of the Atlantic and (2) the intensity of demands from abroad for troops and war materials. Contracts and orders must be forthcoming in order that industry will be able to formulate some tangible production policy. Furthermore, credits or cash must be available in order that demands may be met. In so far as domestic production is concerned the Dominion Government is in a position to create and transfer purchasing power within the country. Economic expansion resulting from allied orders must be met in the main by the creation of credits to England—a policy apparently not yet fully operative.

The great bulk of British purchases for war materials are being made through a central purchasing agency under the direction of a Ministry of Economic Warfare. The normal independent buying and selling arrangements in existence prior to war now are practically nonexistent. Thus, great care must be exercised in determining when and where demands of the British purchasers exceed the normal demands of peace time. Even under existing conditions Canada will undoubtedly export many commodities. But, the mere fact that orders are being placed through a central board is not sufficient to assume additional demands on the economy.

EDITOR'S NOTE: W. F. Lougheed, a Torontonian is Research Associate of the Institute of Public Affairs.

*The reader is cautioned that any appraisal at the present time of possible effects on the Maritime economy is based on such facts as are available. Such an appraisal therefore, is "dated" and as new facts emerge the analysis is subject to change.

The outbreak of the war was accompanied by anticipations (partly conditioned by the experience gained during the later stages of the war of 1914) that Canada would become a "sellers market." But, at present, competition from other countries, particularly the United States, tends to alter the degree to which Canada can be in this position. Efficiency in production thus becomes a prerequisite. Tariffs, preferential trade agreements and other devices designed to assist production can offer little. Furthermore, the buyers are motivated not only by alternative price quotations but also by political, financial, and strategic factors. Hence the degree of stimulus that Canadian industry will receive from external sources will be determined to a great extent by the ability of industry to meet competition and the needs of the purchasers.

Internally, certain conflicting features are beginning to emerge. The first complication in the economic system may be seen in the money markets. In the first place, the possible curtailment of the London and New York markets to Canadian borrowers will shift the burden directly on Canadian financial institutions for the provision of capital to the Dominion, to the provinces, to the municipalities, and to private industry. The Dominion government, in order to prosecute war, unquestionably will make heavy demands on Canadian capital. At the same time, provinces finding it necessary to maintain their financial structure will be seeking loans if for no other purpose than to refinance maturing debt obligations. Likewise those private industries that must expand in order to supply war materials may be seeking loans in the market. For those investors who favour the purchase of bonds, many alternatives will be available, but the rate of interest that will be demanded will tend to increase as it has already been doing. Thus the fixed charges on governments, particularly, will tend to increase according to the degree of financial need, ultimately placing an additional burden on the taxpayer.

The second complication arises as a result of the avowed Dominion policy

of "pay as you go". Additional tax burdens must be met by industry and individual taxpayers throughout the Dominion. The incidence and effects of various war-time taxes cannot be seen immediately. The short run effects of commodity taxes, however, are beginning to emerge—food prices have gone up. In a province that has enjoyed little prosperity since the last war, the increased regressiveness of the tax system will have an adverse effect on the standards of living, particularly in the lower income brackets.

As pointed out above each geographical or political sub-division has its own particular economic structure. It is likely that each area will be called on to supply those commodities which it is most suited to produce. Under present circumstances, it is unlikely that Nova Scotia will be called upon to supply wheat or aeroplanes to the allies but, should the need arise, Nova Scotia would be in a position to supply lumber, steel, coal, fish and some manufactures based on these commodities. However, until the demands become intensified certain possible repercussions may be considered.

The prosperity of the fishing industry at present depends to a large extent on foreign markets, especially those purchasing dried and salted fish. In fact the industry has been so geared that the fresh fish markets could not serve as a suitable alternative in the event that foreign markets are lost. By virtue of the control placed in the British Ministry of Economic Warfare for the purchase of sugar for the Empire and the fact that Britain appears to be purchasing fish from Scandinavian countries and Newfoundland, it may be that foreign markets for Maritime fish will be curtailed should fish purchased by England be bartered for sugar.

An examination of the fishing industry during the last war indicated that the demand for fish, particularly in North America, increased nearly fifty per cent. This was attributed in a large measure to the demand of the Allies for meat, both fresh and canned, causing a shortage in the domestic market—fish becoming

a substitute for meat. For certain types of fish there is a likelihood during this war that markets will expand but unless additional markets for fish are opened up, it is unlikely that the industry as a whole will show substantial gains.

The Maritime steel industry appears to be anticipating an increase in business. This is based on the possibility of increased demands for steel of all kinds. However, the Canadian steel industry has not received, since the outbreak of war, abundant foreign orders for steel products. Furthermore, the British steel industry at the present time is geared up to produce at a greater rate than at the conclusion of the last war. From an investment point of view under present conditions, it is absurd to expect additional plants and equipment to operate in the province for the duration of the war and then be forced to close down as a result of a diminished or negligible demand for the products.

The coal and coke industries are receiving some stimulation due to the difficulties of obtaining imported coal. Major increases in demand for Nova Scotia coal, however, will be conditioned by the price of American coal, the extent to which the British supply to Canada is curtailed, and the needs of domestic industry. There is a functional relationship between the coal industry and other industrial activity. Until other industries utilizing coal expand, production in the coal industry will receive stimulation only as a result of scarcity of imported fuel.

The apple industry stands to suffer as a result of war.* Great Britain has been the principal market for Maritime apples, Nova Scotia usually shipping between fifty to seventy per cent of its apple crop each year across the sea. But it is likely that British buying will be curtailed since restrictions have been placed on certain consumable goods for the duration of the war. In addition, freight and insurance rates have increased making the return to the apple producers relatively low. If the market is seriously

curtailed and prices drop, the only alternative is to sell the apples in Canada and the United States. In 1937 over one million barrels were shipped to England, while Canada absorbed one hundred and thirty thousand barrels. This indicates the present problem of marketing the apple crop.

The Dominion Government has appointed a Board to act as a central agency for the purchasing and marketing of Nova Scotia apples. The appointment of such a board may prove effective in opening up new markets since one objective of the Apple Marketing Board is to make top grade apples available for domestic consumption. Also the British Food Ministry is considering at the moment the possibility of purchasing dried apples. Changes in the processing and marketing of apples are likely to occur which may result in the expansion of the apple industry.

Curtailement of shipments of pulpwood since the outbreak of the war has affected the lumbering industry. Large amounts of pulpwood ordered by German interests were not transported after August of this year. But the demand by British markets may offer a considerable degree of compensation for the loss of other European markets. An additional possible market for Canadian lumber may open up in the United States since Sweden, Canada's chief competitor in the United States markets, has prohibited further shipments of pulp and timber by sea. But, liner freight rates on lumber have increased nearly fifty per cent, while the rates on tramp freighters have increased over one hundred per cent. It is necessary therefore that some form of price stabilization be established before the timber cutting begins if the lumber industry is to operate effectively.

Small craft, particularly anti-submarine boats are listed among the needs of Britain as well as Canada. There is no question that the province is admirably suited for boat construction. The main factors (other than political) affecting production will be the price, the speed with which the boats can be produced

*See the article: Marketing of Nova Scotia Apples by A. W. Macdonald on p. 64

and the organization of the industry.¹ During the last war, small craft were being produced on assembly lines in automotive plants at very nominal prices and relatively rapidly, but for the construction of certain types of boats, there is every indication that the Maritime ship-building firms will be able to meet most if not all requirements. Any orders that may be made with the Maritime firms should have the effect of stimulating the activities in all subsidiary industries.

It is evident at the moment that the cost of living is increasing or being increased. In order to offset those increases in price resulting from a lack of supply, the Minister of Agriculture has been encouraging an increase in the planting of various crops within the province. The present objective is to increase the number of acres under cultivation from 114,000 acres to 170,000 acres. Any activity in stimulating agriculture should result in a greater utilization of productive resources and the encouragement of more scientific methods of production. While such results may not appear in the short run, their long run effects should materially benefit agriculture throughout the province.

The increasing importance of the port of Halifax accompanied by an increase in employment necessary to cope with the increased activity should be reflected in the gross incomes accruing to the retail business. Also, increases in the army, navy and air force stationed in the province result in an increase in the purchasing power reflected in additional gains to the real estate and hotel trade, the consumption goods businesses and the

(1) One cannot refrain from asking where suitable high speed motors can be produced at a reasonable price.

amusement centres. The less immediate effects will be felt throughout the economy as the readjustments are made.

From the financial point of view certain effects of the Dominion monetary and fiscal policies will be felt throughout the economy. As pointed out above intensified demands on the Canadian financial institutions will force up interest rates. Thus, municipalities and towns as well as the province will find it increasingly difficult to refinance maturing obligations at low interest rates. This will be reflected in increasing fixed governmental charges. Should expenditures continue at existing levels the net result will be increased taxes. If a general rise in prices occurs as a result of the policies of the government designed to meet war-time demands then annuities, pensions and legacies will shrink in terms of purchasing power. Such possibilities must be considered in the light of a long drawn-out war.

The war in its present stage of development is far more an economic war in every sense than that of 1914. Great Britain—in a position to suffer great financial losses—is utilizing her bargaining position to ensure against inefficiency and incompetency in the acquisition of war supplies. It is fully realized by the British government that the taxpayers are going to pay for this war and that the national wealth of the country will be depleted. The British taxpayers' money is not being lavishly spent and there is little likelihood that it will be. The keynote "efficiency" in British buying and American production should serve to arouse Canadian business to utilize all available resources in the most economic manner possible.