A HISTORY

OF THE

CANADIAN TARIFF

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TABLE OF CONTENTS

INTRODUCTION

The tariff history of Canada has been eventful and varied. Our present history takes its logical beginning in 1846, the year of the Repeal of the Corn Laws in Great Britain. This Act established free trade in Britain, and thereby struck a blow at the provinces of Canada which hitherto had enjoyed a substantial preference in the British market. On the other hand, it also was a boon to the self-governing aspirations of the British colonies, especially in matters of commercial and fiscal policy. Their future was now in their own hands, not those of Great Britain.

There are a number of broad divisions into which this work may be divided. The first of these is the pre-confederation period which has several distinct trends, the first towards reciprocity with the United States and the second, its antithesis towards protection for the Canadian manufacturer - a development which helped undermine the reciprocity agreement. The second period studied is the interval between Confederation and the year 1879, a period in which the tariff was used solely as an instrument of revenue. Then came the National Policy, initiated by the Conservatives in 1879, a policy which has continued in some degree or other to the present time. The Conservatives remained in power to 1896, during which time protection reached its early peak. Under the Liberals there was a very gradual decline in tariff rates until 1930. This long division has been sub-divided into periods before and after the Great War, the former with its radical change of imperial preferences and the latter associated with a greatly increased industrial potential. With the Great Depression, the Conservatives raised the level of the tariff to unprecedented heights, the Liberals again making substantial downward revisions during the latter half of the period which ended with World War II. The succeeding chapter is concerned with war and post-war policy. Tariff changes during the war were of minor importance, but the developments of the last few months are, however, of particular and possibly lasting value. A new era of economic advance may well be associated with the Geneva Conference.

The main purpose of this thesis is not, however, to list the actual factual developments as they occurred. Space would not permit a full and detailed year-by-year examination of the tariff. It is rather to highlight the major changes of each period, and to show, in particular, what caused these changes, and what results may be attributed to them. The most important aspect of tariff changes are, of course, their results, for only by looking backward to the success or failure of different policies can we adequately judge what should be done in the future. In particular, the growth of some of the more important industries in Canada have been and will be related to the tariff.

In conclusion, we shall try to evaluate the most recent developments in Canadian commercial policy. The future of Canada depends to a great extent on what is being done now and what will be done in the near future. The final purpose of this thesis is to attempt to judge whether, under the circumstances, we are following the right course. Should free trade or ecohomic nationalism be our goal for to-morrow? Only a look at the past will give us a guide to the future and as the reader will find, the economist must argue in favor of a closer approach to free trade.

CHAPTER I

Pre-Confederation 1846 - 1866

The Repeal of the Corn Laws in 1846 necessitated drastic reorganization of Canadian commercial policy. The proposal to repeal the laws set off an attitude of political discontent which gathered force with the economic depression which followed the repeal. This attitude culminated in a movement in three directions, towards reciprocity with the United States, towards national protection and lastly, towards annexation. The latter movement was shortlived and was ended by the signing of the Reciprocity Treaty in 1854.

Thus the Repeal of the Corn Laws involved far-reaching consequences in the British American colonies. British policy had heretofore tended to restrict their commerce but had supplied a protected market for their raw materials. Now they were more or less set adrift. The economic consequences were serious. There was a bad depression in 1847 and 1848 caused by lowered prices for wheat and the reduced preference on timber, two of the Canadas' main exports. They were shut out of the large United States market with its higher prices by the higher tariffs which the United States had set almost two decades before. However, while they lost their markets, the colonies gained something which was to be more important, a certain measure of fiscal freedom which gave to the British colonies power to reduce or repeal all the duties of the British Possessions Act, with, of course, the consent of the Imperial Government. Full fiscal freedom was to come much later. In a word, the colonies could pass all enactments with regard to duties and trade which might be suited to their needs.

The agitation for reciprocity was started then in an effort to find another market for the one that had just been partially lost and what better market was there than the United States? This agitation met its climax in about 1850 or 1851 with the provinces of Canada in the lead, since they had all to gain and nothing to lose. They were the agricultural provinces with no fisheries which were to become an added inducement for the reciprocity agreement with the United States. The annexation movement had its centre in Montreal, whose commercial interests had been hardest hit by the Repeal of the Corn Laws which tended to cut down the use of the St. Lawrence River as the channel for the flow of products from the colonies to Britain. Reciprocity was, in the minds of the colonial ministers, the best antidote to the annexation movement and Merritt, a miller and member of the legislature, became leader of the reciprocal trade movement in Canada.[1)] In 1849 he drafted the Reciprocity Act which removed duties from an enumerated list of articles, provided that the United States did the same for Canada. The United States, however, did not take the hint, and it was left for Elgin to take the demands to the Colonial Office and leave the negotiation of a treaty in the hands of the British Government. Similar movements took place in the other colonies at the same time; New Brunswick, Prince Edward Island and even Nova Scotia for a few years had an active movement towards reciprocity.

By 1852 the intense eagerness for reciprocity had subsided, though it had by no means disappeared. It was merely that Canada had overcome the effects of the depression and had found that she

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1) D. C. Masters, The Reciprocity Treaty of 1854 (Toronto: Longmans, Green and Co., 1937), p. 4 et seq.

was not as badly off as she thought. Reciprocity was desired but was not, as in 1847 and 1848, viewed as the only cure to the economic ills which were then besetting her. The Canadian Government was now planning retaliatory measures, such as raising of her own tariff, to force the United States to accept reciprocity. Anyway, the fate of the reciprocity treaty was now in the hands of the British Government.

The British Government was also eager to attain a beneficial commercial arrangement for the colonies. Great Britain knew that the Repeal of the Corn Laws had alienated a good deal of colonial opinion. The colonies demanded reciprocity and she would have been glad to give it to them. She also desired to free the colonies because they now had no counteracting privileges for the Imperial tie. Thus the movement towards reciprocity became a part of British policy. There was also the influence of the fishing controversy over the interpretation of the three-mile limit to which the Americans could fish Colonial waters. A trade treaty between the two countries would have been a good means of clearing up this point. In 1852, a fleet was sent to secure the rights of the Canadian fishermen in their own waters and to see that the Americans were kept out. The fisheries dispute was becoming a very sore spot in British-American relations, and in the minds of the British who negotiated the treaty, it became the most important question. The British policy was also influenced by the Crimean War. Britain had enough trouble in Europe; she did not want anymore with America or the colonies. Thus in 1854, the British diplomat, Elgin, succeeded where many before him had failed, in securing a reciprocity treaty.

The failure of the other ambassadors (1849-1853) was due to the interplay of sectional politics (North vs. South), to general anti-British prejudice, and to indifference - Canada was not important in their minds. Other reasons for the failure were the strength of protectionist opinion and the ineffectiveness of British diplomacy.

The main reason for the revival of negotiations in 1854 was the fisheries dispute, not so much for the actual value of the fisheries themselves but because of the danger of a rupture and thus a potential struggle with Britain, and America at this time was in the midst of the slavery dispute. War would have been disastrous to her. This also served to stir American opinion from the lethargy with which it had previously regarded commercial relations with Canada. There was also a decline of protectionist opposition in the United States, particularly with regard to the fisheries interests and also the grain interests of the Mid-West, who saw the advantages of the St. Lawrence river route and supported reciprocity. The Canadian annexation movement of 1849 also strengthened Elgin's efforts of 1854. Northerners thought reciprocity would hasten annexation; Southern states thought reciprocity would forstall annexation and thus the balance of power between North and South would not be broken. The United States manufacturing interests also supported it because they believed that it would open a greater market for their goods. And so in 1854 the Elgin-Marcy Treaty was signed.

There were seven articles in the treaty. The first granted liberty of inshore fisheries except for shell fish in the waters of British-North American colonies to the United States. The second gave similar privileges to Canadians in United States waters. The third was a list of products which were granted reciprocal free trade, chief of which were grain, flour and breadstuffs, smoked and salted meats, cotton, wool, seeds and vegetables, fruits, fish and their products, poultry and eggs, undressed hides, furs and skins, salt, butter, tallow, horses, metallic ores, coal, pitch, tar, turpentine, timber and lumber of all kinds, plants and trees, pelts, rice, corn, brick and gypsum, flax, hemp, tow, unwrought and wrought tobacco. The fourth article gave Americans equal rights and rates for navigation of the St. Lawrence River and canals of the Great Lakes and the corresponding rights of British subjects in Lake Michigan. Article five provided for the treaty to remain in force for ten years after which it could be broken on one year's notice. Article six extended these terms to Newfoundland and the last merely made arrangements for its ratification.[1)]

The Zenith of the Reciprocity Treaty was between 1854 and 1857. It was very popular during this time both in British North America and in the United States. President Pierce in December, 1856 gave the official American view when he said that it gave an immense impetus to trade.[2)] However, there began to be evidences of the protectionist movement in Canada which became the apple of discord in Canadian-American commercial relations. Merritt found that by this time Canada was in a position suitable to the development of manufactures. He desired either more complete reciprocal trade, that is, free trade in manufactures to open the large American market to Canadian manufacturers, or else, failing that, protection, so that the Canadian market could be supplied wholly by Canadian manufacturers.

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1) Ibid., pp. 243-249.

2) Ibid., p. 106.

The turning points of reciprocal relations were the Cayley and Galt tariffs of 1858 and 1859. Previous to 1858, the general range of duties on manufactured goods had been 15 per cent with a few dutiable at 20 per cent. By the Cayley tariff of 1858, an extended general list of duties remained at 15 per cent with a few articles at 25 per cent. There was also a 20 per cent class which included many important articles. Partly manufactured goods were rated at 5 per cent generally. The free list included articles covered in the main by the Reciprocity Treaty. The 20 per cent list comprised eighty items, all manufactured goods which were supplied chiefly by Great Britain; the 25 per cent list was mainly devoted to leather goods. By the Galt tariff of 1859, the rates were again revised upwards. The general level now became 20 per cent and the 5 per cent increase was typical of all the classes. Clothing as well as leather goods and wearing apparel were rated at 25 per cent and some articles were as high as 30 per cent and 40 per cent. The lowest range became 10 per cent instead of 2½ per cent and 5 per cent as previously.[1)]

There were many reasons for the rise of the tariff rates at this time, chief of which was the need for more revenue. The year 1857 had been a depression year in Canada and previous to this time, Canada had borrowed a great deal of money to improve her transportation facilities, railroads and canals. There was the necessity of paying

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1) For further details of tariff changes during this period see Edward Porritt, Sixty Years of Protection in Canada (London: MacMillan and Co., 1908), pp. 228-239.
O. J. McDiarmid, Commercial Policy in the Canadian Economy (Cambridge: Harvard University Press, 1946), p. 74 et seq.

interest on this debt, and also to guarantee interest payments on the Municipal Loan Fund, from which many municipalities had borrowed heavily and were forced to default because of the depression. Thus there was an increasing need for revenue, which was made more serious by the extension of the list of those goods entering free. The rest must pay a higher price. There was also at this time a new strength and aggressiveness to the protectionist movement led by the Association for the Promotion of Industry. The three chief reasons for support of increased protection were the depression of 1857, the need for more revenue and the strength of the protectionist movement. The expanded free list was also made as a point in defence of the increases. Galt himself said that his was a policy of incidental protection - protection was second to the demand for revenue.

This tariff policy was the start of the downfall of reciprocity. The United States had a higher tariff at the time but objected violently to those classes of duties under which her manufactures were penalized heavily. American manufacturers lobbied from this time on against the treaty, and their rallying cry was that the Galt and Cayley tariffs were a violation of the spirit of the treaty.[1)] The rest of those in opposition to the treaty also gathered around this moral argument. However, the strongest body of opinion favored revision rather than abrogation of the treaty.

Then came the outbreak of the Civil War and with it many unfortunate incidents on Canada's part, chief of which was the Confederate raid on St. Albans from Canadian soil. These incidents infuriated the American public and they demanded retaliatory

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1) Masters, op. cit., p. 204.

measures, most important of which was the abrogation of treaty. In fact, in 1864, there was a strong demand that a notice of abrogation be sent even though the ten years of the treaty were not yet up. The notice of abrogation easily passed the House of Representatives in a wave of anger and was sent on to the Senate. It had much more difficulty there since the minds of the people were not so inflamed by this time (early in 1865) but still politics had a bearing on the subject. It would have probably been abrogated anyway on commercial reasons alone. The Senate was highly protectionist in sentiment at this time and, as a result of the war, greatly needed revenue. This was an excellent economical weapon against the treaty for two reasons; one, revenue was sacrificed by the previous removal of duty and two, it was impossible to levy internal taxation (excise taxes) on goods which could come into the country free. This was the chief argument against the treaty. It was also stressed that the St. Lawrence route was of practically no value to America, in fact it was a detriment to the transportation system of the State of New York. Further support was gathered because it was felt that the only way to get a revised treaty was to abrogate the old one, and almost all who wanted reciprocity wanted the treaty revised. Political prejudice merely added vigour to the efforts of the abrogationists, and the notice of abrogation passed the Senate in January and Britain was officially notified on March 17, 1865.[1)]

Neither Canada nor Britain could prevent abrogation. Britain

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1) For further details of the events leading to the abrogation of the treaty see Ibid., pp. 132-155.

played a waiting game because American opinion was already alienated from her. Once the notice of abrogation was received, however, both Great Britain and Canada tried to secure a new treaty, but were unsuccessful. The provinces united here for the first time under the leadership of Canada but their efforts came to naught, as no suitable terms could be arranged. Thus reciprocity passed out of existence never to be replaced.

The effect of reciprocity on trade is difficult to estimate because of other complicating factors. It was a period of phenomenal development in both countries. New lands were opening to settlement and populations increasing, while there was also a great improvement in communications, all of which tended to increase trade. Then, too, the great investment of English capital in railway building involved large purchases from the States. Outside influences (Crimean War) deprived Britain of a principal source of supply and increased the demand for Canadian agricultural products which led to higher prices, and increased purchasing power to spend in the States. Also the exports of each country had always been shipped to some extent via transportation system of the other. The outbreak of the Civil War disrupted even more the normal course of trade. There was an increased demand for goods and the shipping industry also profited. General profits rose because of increase in prices during the War. Then, too, much produce was sent to Europe by way of Canada to avoid risk of capture by Southern raiders. It can thus be seen that there were many causes for the increase of trade during this period.

The treaty increased the consumption in each of the other's products and fostered the use of each other's transportation lines,

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1) <u>Ibid</u>., pp. 132-155.

particularly with regard to breadstuffs. However, a marked growth of trade would have occurred regardless, the treaty merely making it easier for this trade to occur. The increase had started before this period and continued after it. The Reciprocity Treaty was only one of several factors which combined to produce prosperity. One of the indirect effects of the treaty was that better political relations were established, which also helped trade. The influence of the treaty, while considerable, was somewhat less than has been popularly supposed.

What was the nature of the trade? Free goods comprised the greater proportion of Colonial exports during the whole period and this was also true of American exports, although they had a more gradual rise. The years 1862 and 1863 saw the export of free goods equated on both sides. The trade itself was largely a commerce of convenience since most of the articles were common to both countries. The Maritimes received their wheat from the bordering American states and Canada exported a good deal of wheat to their bordering states. It was more convenient for parts of the United States to get produce from Canada and vice-versa. The removal of duties facilitated this operation which would have developed to some extent regardless. Also much of the wheat imported by each country merely passed through on the way to foreign countries (i.e. grain from Mid-West to Europe via St. Lawrence and grain from Canada via Erie Canal to Europe) because of the convenience of the routes. Similar characteristics were found in the coal trade - a great deal of coal was exported from Nova Scotia for use along the Atlantic seaboard states while Canada obtained its coal supplies from the Pennsylvania coal fields. This was again a matter of convenience. Conditions were also similar with regard to the fishing industry. In connection with the trade in lumber a great deal of that exported to the United States was headed for the re-export market.[1)]

The trade in duty paying goods was not increased appreciably and in fact decreased after 1859, causing the American manufacturer to oppose the treaty. Their assent to the treaty had previously been secured by assurances that they would benefit from it by the increase in the consuming power of the colonies. The fiscal policy of Galt and Cayley had considerable influence in the decline of manufactures. In addition there was the paralyzing effect of the Civil War on American manufacturing, especially for the export trade. The policy also aided the Canadian manufacturer with the result that he gained an increasing share in the market. The increase in duty also caused some degree of diminished consumption of the manufactured products affected. The St. Lawrence trade was not much affected by the treaty.

Besides being responsible in part for the sudden rise of trade with the United States, the Reciprocity Treaty also had the permanent effect of directing the continent's trade in a north-south direction. Thus the continued increase of trade which followed a few years after the abrogation of the treaty was, in some measure, a result of the treaty itself. Trade tends to continue in a certain direction even after the earlier causes for that trade are eliminated. Thus the large trade developed from 1854 to 1866 caused a further development in later years.

The effects of the abrogation of the treaty were not as great

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1) Ibid., pp. 181-226.

as might have been expected. Trade fell sharply in 1867 but this was chiefly because of the 11th hour rush of goods across the border to meet the deadline of reciprocity. After this initial drop, trade rallied until it was as high as the 1865 level by 1870. The potential blow to Canada was moderated by the recovery of the American currency from a period of inflation during wartime, by the reappearance of the Southern markets which had been closed because of the war, by the great demand for material for reconstruction purposes and by more settled business conditions in the United States. In addition, the high prices and heavy taxation which were prevalent in the United States after the close of the war gave Canada a good advantage in trade. The transportation interests of the United States lost a profitable carrying trade by the abrogation of the treaty but the fisheries question was satisfactorily settled in 1871 by the Treaty of Washington.

Abrogation also had a great effect on Confederation and was in fact, its main economic cause. Canada had the feeling of being left high and dry and had to find a new commercial policy. Great advantages were anticipated in the opening of the markets of all the provinces for the industries of each. Confederation would provide a diversity of resources. It was thought that there should be great prosperity in a commercial system which combined the wheat growing of Canada West and the coal and fisheries of the Lower Provinces, linked by the best navigable river in the world. This combination should speedily develop an internal and external trade to replace that with the United States. Then, too, an intercolonial railway was needed to assure Canada of a winter route for trade and this could most easily be obtained by combining the resources of all the provinces. Furthermore, the abrogation of the treaty hit a hard blow at the Maritimes and their recovery was sought in Confederation with its increased commerce.

The imminence of abrogation had also fostered the habit of intercolonial co-operation, first in an attempt to negotiate a new treaty with the United States, and secondly in attempts to negotiate trade treaties with other countries to replace that lost by abrogation. At the beginning of the period, the colonies had looked everywhere but at home for salvation - annexation, reciprocity, free trade and protection. Now they began to think in terms of nationality. Confederation was on the way. Political union was a short step from the economic union which was desired and needed when reciprocity was ended.

CHAPTER II

Revenue Tariff 1867 - 1878

The central economic ambition of the Fathers of Confederation was to increase the production, to hasten the expansion and to promote the prosperity of the British North American colonies by the establishment of a new national economy. It was believed that the resources and industries of the provinces were diversified and complementary; integration of these resources would provide a stable economic life. Some of the provinces were solely dependent on one branch of industry - through economic union they would find security and prosperity. The great territories of Canada needed the Maritimes as an outlet to the sea and without this great territory, the Maritimes themselves would be merely a strip of sea-shore. The union of the diversified resources - gold and timber of British Columbia, furs and wheat of the prairies, minerals of the Lake Superior country, wheat, timber, oil and manufactures of Canada, and the coal, iron, fish and forests of the Maritimes - would give the new country the desired stability.[1)]

This new national economy was to be united by means of the Intercolonial Railway, which was under discussion just prior to Confederation, and also by improvement of the canals and existing transportation systems. This would also give a helping hand to what was hoped to be an increased internal trade. Trade had previously been relatively small but with the removal of provincial tariffs and the improvement of communications, would be provided

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1) D. G. Creighton, British North America at Confederation (Ottawa: The King's Printer, 1939), p. 40.

a stimulus for a large increase. The creation of a free-trade area of four million people would provide compensation for the abrogation of the Reciprocity Treaty. It was also hoped that external commerce would be promoted as well, since union would give the confederated provinces greater prominence in the commercial world and a chance to bargain more effectively with other countries. Business men and politicians believed that Confederation would also promote the growth of manufacturing. These hopes were based almost entirely upon the larger market which union would open up. In the Maritimes these hopes were particularly high, and with all these, came the hope that Confederation would provide a lure for immigration which Canada needed above all else. These then were the general economic arguments for Confederation.

In the last chapter the main discussion settled around the tariff policy of the United Provinces of Canada because they had the greatest effect on the events of the time. They were the most important provinces from the economic point of view and it was with them that we were most concerned. At this time, however, the tariffs of the Maritimes (New Brunswick, Nova Scotia and Prince Edward Island) were all low, mainly of a revenue producing type. There was only a very limited amount of protection in these colonies. The general level of the tariffs ran from 10% to 12½%, with high taxes on spirits which were the main revenue producing items. Previous to 1867 there had been some attempts towards reaching a commercial union (1859). These had been frowned upon by Great Britain, because she wanted no preference given to any other colonies since this would have been incompatible with her own free trade ideals.[1]

The movement for Confederation began as a movement for commercial union. The abrogation of the Reciprocity Treaty forced the Maritimes to draw closer to Canada, but there was also lively opposition to Confederation because of the restrictive commercial policy of Canada. The Maritimes did not want the high protective tariffs which were prevalent in Canada at this time. This was one of the reasons for the lowering of the tariff of the central provinces in 1866, previous to Confederation, an added inducement to the Maritimes to join. There were also other reasons; Galt, the finance minister, had lost his belief in protection and now looked to the free-trade policy of the Mother country. He felt that free trade was to be the policy of Europe as well as England and he desired to win the Maritimes to enthusiastic support of Confederation. Thus in 1866, the two provinces of Canada adopted a new policy. Duties were restored on goods previously admitted free under the terms of the Reciprocity Treaty. The Canadian list was brought more into conformity with the tariffs of the Maritimes so that it might stand after Confederation as the tariff of the Dominion. The general list was reduced to 15 per cent. There was a general reversal of the trend for higher duties (protection) on textiles, clothing, farm machinery and metal products. Items at 30 per cent were reduced to 25 per cent and those previously at 25 per cent were now reduced to the general rate of 15 per cent.[2]

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1) For a complete history of Maritime tariffs previous to Confederation see McDiarmid, op. cit., pp. 93-130.

2) O. D. Skelton, "General Economic History", Canada and Its Provinces, V, ed. by Adam Shortt (Toronto: Glasgow, Brook & Co., 1914), pp. 133-135. See also McDiarmid, op. cit., p. 136.

Thus Canada entered Confederation with a compromise in her policy of the 1850's. The economic and political forces in decades to follow were also to be centred around this problem of effecting a compromise among sectional interests. The Canadian attitude towards lower tariffs helped to make Confederation possible.

Intercolonial trade had been on the increase prior to this time and especially after abrogation of the Reciprocity treaty. The products of Canada now went directly to the Maritimes and not by way of the United States. Another reason for Confederation was to obtain the capital with which to build a great internal transportation system. It was realized that there would be greater opportunity and greater advantages to capital investment if it were backed by a Dominion Government. Among the powers bestowed on the Federal Government by the British North America Act was the unrestricted and exclusive control over the customs. This control of the customs tariff, which had produced over 60% of the provinces' revenue, was regarded as the greatest force for welding the provinces into a united nation. The Dominion assumed responsibility for the developmental (railway, canal and municipal) debts of the provinces to the extent of over $88,000,000. at Confederation.[1)] Revenue was, therefore, the prime objective of the first Dominion tariffs. Protection was a waning cause in the first tariffs of the Dominion.

In 1867, the first tariff of the Dominion Parliament continued the basic rates of the provincial tariff of 1866. Duties of 15 per cent ad valorem remained on the general list. Provision was made for

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1) McDiarmid, op. cit., p. 135.

placing goods from colonies not yet in the Dominion on the free list by order-in-council. Canada's method of fixing value for duty at the fair market price in the country of export was continued. The object was to make Canada a cheap country to live in, cheap to produce in, to give Canadian manufacturers low taxes. Thus with her low labour costs and cheap materials, she could compete on favourable terms in the markets of the world. Immigrants and capital would then flow into Canada and develop her resources still further. The issue of protection was now of no importance. Canada wanted reciprocity with the United States more than any other economic advantage and she tried many times during this decade and the next to achieve this goal. Offers for reciprocity in fish, lumber, grains, and animals were held out to the United States in early Canadian tariffs but to no avail.

Revenue was also the keynote of the tariff of 1870 but there was a trend towards higher duties. A general 5% increase was made in most existing duties but popular disapproval caused a reduction in 1871 by the same amount. By 1873 groups had begun to agitate for protective duties to encourage domestic production and to be a counter balance against the high duties of the United States. Little progress was made in this direction however until after the depression of the 1870's. Canada did not want to ruin perhaps the slight chance she had of obtaining reciprocity with the United States by setting up heavy tariffs. High tariffs had been one of the major causes for the abrogation of the earlier treaty. Revenue exigencies became such that it was necessary in 1874 to increase duties generally by $2\frac{1}{2}$ per cent until the general level was $17\frac{1}{2}$ per cent.[1)] It was still, however, a revenue tariff alone. The 10 per cent list was lengthened by the addition of free goods and the average rate of duty on dutiable commodities became about 20.5 per cent. This higher rate was due chiefly to the much higher rates on imports such as whiskey, cigars, tobacco, etc. No attempt was made to provide particular favours for Canadian manufacturers.

Protection versus free trade was the principal subject of debate in Parliament and in the country at this time. From 1874 to 1878 the rates remained substantially unchanged. The economic philosophy was that of laissez-faire in commercial policy, though fiscal necessity made this goal impossible to realize. Recurring deficits occurred after 1874, thus weakening the government's position.

Up until 1874, abrogation of the reciprocity treaty had been counterbalanced by factors favourable to the Canadian exporter to the United States. This was described at the end of the last chapter. After this time Canada lost her favourable position because of the currency stabilization of the States, because of the increasingly high United States tariffs and also because of the increased efficiency of American manufacturing. Exports to the United States were reduced and imports increased. The influence of the tariff on industrial development in Canada during the first decade of Confederation was not striking. Few of her important industries were at all dependent on a protective tariff. About

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1) For a more complete outline of the tariff policy of this period see Ibid, pp. 136-143.

12 per cent (by no. of employees) of the industries listed in the census of 1871 were of the naturally sheltered type - shopcrafts and local services not exposed to external competition. About 43 per cent were industries carrying on the initial processing of domestic raw materials, half of which were occupied in the lumber industry. The remaining 45 per cent embraced certain sheltered industries though less obviously so, and others dependent on the home market and subject to foreign competition.[1] These were favoured, however, by transportation costs and cheap raw materials from England as well as by the tariff. Manufacturing, as compared with commercial development, was retarded until more substantial tariffs were imposed by the scarcity of investment capital in Canada. The need for adjustment in some industries became apparent expecially after the depression set in. The coal operators of the Maritimes complained of American competition in Canada and of the inaccessibility of the United States market. Canadian lumber production was hard hit by the depression and in 1875 was 50 per cent lower than in 1872. The lumber interests in Canada were strong advocates of free trade and reciprocity.

In strictly manufacturing industries farm machinery was among the most prosperous, owing to the growth of the internal market. Local prosperity decided the vulnerability of the companies to general depression. As for textiles, Canadian firms had expanded during the Civil War and in some cases found themselves hard pressed at its conclusion. Flour millers suffered from the depression of the 1870's as much as any group because of their over-expanded

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1) Ibid., p. 146.

facilities. Lowering of tariffs abroad and the recovery of world prices were the cure for this industry.

When world-wide deflation and depression first set in in 1873, Canada was not hard hit. Export prices of Canadian materials were better maintained than prices of her imports. The full severity of depression was not felt until 1875 and then it was intensified by crop failures. However, producers still did not look to protective tariffs as the solution to falling export prices and depressed internal trade. Reciprocity with the United States still possessed a wide appeal. The influence of the representatives from the Maritimes discouraged advocates of a tariff for non-fiscal purposes. In the main, the depression was commercial and fell particularly on the distributive trades. The most serious effect of the depression was that capital markets were tied up and the great investment projects (Canadian Pacific Railway) had to be postponed. Increased expenditures and inability to borrow forced the rise in tariff rates and was also responsible for budget deficits after 1874.

In 1876 Mackenzie and Cartwright were about to propose a general increase of $2\frac{1}{2}$ per cent in the tariff, a proposal which had protectionist implications, but they were held back by the Maritime Liberals. Thus the Liberal party stuck to the policy of free trade and the Conservatives adopted the "National Policy" of protection. It is probable that had the Liberals elected to raise the tariff, McDonald would probably have attacked this policy in parliament and adopted the policy of free trade.[1] We have an

1) Ibid., p. 155.

instance here of politics in the tariff question. Protection was portrayed by the government as a favour to class and special interests at the expense of the general welfare. It was a movement towards monopoly and the lowering of the real wages of labour. Later developments revealed that the government was right since protection certainly did raise the cost of living. Only after the depression had made severe inroads into the economy did protection win wide acceptance in the country as a whole. Prosperity had silenced the tariff discussion; now depression had brought it back with each party adopting opposite platforms, the Liberals still standing by a policy of free trade and the Conservatives advocating protection.

Thus in 1876, the Conservatives embarked on a campaign to "sell protection" to the country.[1] At the time the protectionist interests had just been re-awakened, taking form as the Manufacturers Association of Ontario. Still the enthusiasm of the more important industries was slow to be aroused, though some protection was sought against the "dumping" practices carried on by American and British manufacturers during the depression. Protection seemed, to them, to be merely a poor second to unrestricted reciprocity with the United States, which was what the Canadian manufacturers wanted most. They believed that with their cheap labour and cheap raw materials they could produce and sell in any market. Only the high tariffs erected against them prevented the industrial expansion which they thought could be achieved with unrestricted reciprocal free trade. This was, obviously, just before the period of great industrial expansion in the United States with their

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1) Ibid., p. 158.

resultant low prices of mass-produced goods. Most of the popular support for protection came as the demand for a bargaining weapon against the protective tariff of the United States. The previous failures to regain reciprocity lead to the slogan "reciprocity in tariffs". However, by 1877 the Dominion Board of Trade unanimously adopted a motion in favour of protection. This agitation carried on by manufacturers made the task of the Conservatives easier.

The Conservatives claimed that the tariff would make for lower, not higher, prices and by reserving the home market, would enable the Canadian manufacturer to export more advantageously. MacDonald claimed that the government's present policy increased the tax burden without compensatory advantage to industry. Other arguments for protection were many. Manufacturing industries were possible in a new country only under protection. England had used the device before she won industrial supremacy. The "infant industry" and "diversification of employment" arguments were also evoked in support of high tariffs. The basic antagonism between revenue and protective duties were glossed over. The greatest supporters of protection were the small manufacturers, who needed it most. Many uneconomic arguments thus entered into the field of politics.

The Liberals tried to rally the farmers of Ontario and the anti-protectionists of the Maritimes. They argued that protection would not raise export prices while it would raise the price of imports. It would also accentuate the trend towards monopoly. The infant industry argument leads to the vested rights argument but where the tariffs are directed against the consumer in the interests of a special class of producers, both arguments are fallacious. They forsaw the development of trusts under the benevolent eye of a party which obtained campaign contributions from the manufacturers, which the Conservative party was said to do. The principal objection to protection was its unfairness to labour. The manufacturer was protected but the wage-earner was not, especially when the government continued an active immigration propaganda. The Halifax Morning Chronicle estimated the cost of the National Policy at $3.70 per head per annum.[1)]

Political conditions were now adverse to the Liberal party. During their stay in power expenditures had been very high with the building of railroads and improvements in transportation and communications. Revenues had to be raised and taxes were higher. Trade in 1878 was still depressed and prices for farm produce were still relatively low. The financial outlook was discouraging, especially in view of the money needed to continue the financing of the railway program. The Liberal party had reached its end; the people of Canada elected Macdonald and his Conservative party to the leadership of the country, and in 1879 the Conservatives set in motion the National Policy.[2)]

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1) Ibid., p. 160.

2) For another discussion of the rise of the National Policy see Skelton, op. cit., pp. 139-148.

CHAPTER III

National Policy 1879 - 1896

Previous to the first actual tariffs of the Conservative Government the manufacturers had been invited to participate in the drafting of the first "National Policy" tariff schedules; later the Manufacturers Association claimed most of the credit for it. The protective duties levied in the 1879 tariff did not extend to imports needed in developing Canadian resources, for the act contained an extensive free list composed of those materials. Tilley, the Minister of Finance said that the policy of the government was "to select for higher rates of duty those goods that are manufactured or can be manufactured in the country".[1)]

The tariff of 1879 was completely altered in form from that of its predecessors. The fall in prices had resulted in inadequate revenue under the system of ad valorem taxes and therefore many of the duties at this time were made specific. The general list, which was greatly reduced in importance owing to many new classifications, was raised from 17½ per cent to 20 per cent. Many agricultural duties were reinstated to convince the farmer that he had a stake in the success of the National Policy. Materials used in shipbuilding were admitted free of duty while 10 per cent was charged on foreign-built ships of Canadian registry. A specific duty of 50¢ per ton was levied on imports of coal, which was raised

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1) McDiarmid, op. cit., p. 161.

to 60¢ in the next year. Both of these changes were to benefit, and to get the support of the Maritimes. The iron and steel industry received important protection with more to come later. Machinery not manufactured in Canada entered free; 25 per cent was charged on machinery which could be or was being manufactured in Canada. Textile machinery for the important textile industry was admitted free. Hardware had a general levy of 30 per cent except woodscrews which were charged 35 per cent after charges of dumping by British manufacturers. Textiles, subject to strong competition from Great Britain were given higher duties. On them the duty was raised from $17\frac{1}{2}$ per cent to between 20 per cent and 35 per cent, depending upon the price - higher ad valorem rates on the lower priced goods. Clothing was taxed at 30 per cent. The petroleum industry recovered part of the protection it had lost at the hands of Cartwright and had compound duties averaging about 37 per cent. Portland cement bore 20 per cent; lumber and shingles 20 per cent; and furniture 35 per cent. Boots and shoes and leather goods were taxed at 25 per cent and sugar received a tax of 1¢ per pound and 35 per cent ad valorem. (Many of the above articles had compound duties, thus the ad valorem rates are usually close estimates.)[1)]

The scope of the National Policy was not yet complete. Protection reached its peak in 1887. The iron and steel industries were given generous bounties and their duties were raised. Duties on textiles

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1) Skelton, op. cit., p. 153.
See also McDiarmid, op. cit., pp. 161-163, and W. A. Mackintosh, The Economic Background of Dominion-Provincial Relations (Ottawa: The King's Printer, 1939), p. 19.

mounted as the industry expanded. In time almost all sectors of Canadian industry were covered by the tariffs.[1] In addition, more protection was afforded by the system of drawbacks for manufacturers using protected goods in the manufacture of other products. Holes were also left in the tariff to benefit particular industries.

The tariff changes of 1880 were quite unimportant. By the act of 1881, materials used in Canadian manufactures could be transferred to the free list by order-in-council. There was also provision made for drawbacks on articles manufactured in Canada for the construction of the Canadian Pacific Railway. From 1883 to 1887 there were further changes in the rates and classifications which steadily evolved a more protective tariff. In 1883, the duties on farm machinery were increased to 35 per cent and additional duties were also added to list of products manufactured in the primary iron and steel industry. However, duties on some iron and steel products were removed the next year to benefit the Maritime ship-builders. In 1884, there was a 2½ per cent differential established on goods which were brought direct to Canadian ports from their country of origin. This was aimed at the American sugar-refining industry. The average rate of duties was now approximately 25 per cent. With adverse conditions in 1885 and a budget deficit, there was heavier taxation on luxury goods, tobaccos and spirits. By 1887, the manufacturers were strong advocates of

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1) For a more detailed study of all the tariff changes during the period, see McDiarmid, op. cit., pp. 161-179.

protection and the protective force of the iron and steel, farm machinery and textile schedules was increased.

The National Policy was started at a time of recovery from a long depression. Other factors also seemed to be auspicious. There were good crops in the Dominion coincident with poor harvests in Great Britain. Therefore agricultural criticism was first at a minimum. There was also at the same time a boom of settlement in Manitoba. The balance of trade and the terms of trade were both favourable to Canada in the 1880's. Thus the burden of the tariff was reduced in 1883 when deflation again set in, since import prices fell more rapidly than those of exports. The fiscal function of the tariff was not impaired by its protective quality at first. Everything seemed to point to the success of the National Policy. There was a gradual weakening of the British position in trade with Canada and a strengthening of the American position, since the tariff hit Britain harder than the United States. Also a small measure of reciprocity was achieved in 1886 with free trade in coal, coke, iron ore, timber, lumber, lumber products and salt. Other attempts at reciprocity during this period failed. Commercial union was at various times advocated but was never a really important issue because Canada's movement was toward nationalism, and commercial union was incompatible with this objective. A Liberal movement was begun for unrestricted reciprocity which was attacked by the Canadian Manufacturers Association. In fact the election of 1891 was fought on the grounds of unrestricted versus restricted reciprocity. Macdonald won the election largely on the efforts of the anti-reciprocity forces, notably the Canadian Pacific Railway which was alarmed for its future traffic and land sales. As a matter of practical politics, the movement for reciprocity was dead by 1892.

By 1890, the general trend was back to ad valorem rates in preference to specific. Some articles, which had been protected in the hope that they would be manufactured in Canada, were put back on a revenue basis and the argument of the protectionists changed from protection "for infant industries" to "security for vested interests". The textile industry was again favoured by an increased rate of 2½¢ per pound on woollens and the duty on flour was also raised on a protest from the flour milling industry, regardless of petitions from the Maritimes. Liquors and tobacco also were given heavier taxes and the tax was taken off of raw sugar to promote the sugar refining industries of Canada. By 1894, Western Canada had attained some political influence. The farmers were quite organized and anti-protectionists. This discontent in agriculture was combined with the general economic depression of 1893 to bring about a reduction in duties on farm machinery, iron and steel products, and cotton textiles in 1894. The main group of farm machines was reduced from 35 per cent to 20 per cent ad valorem with the more complicated, more expensive types at 30 per cent. Most small equipment was also reduced. The iron and steel schedules were greatly changed again in 1897 so the changes of 1894 are not of particular importance. From 1887 on, there had been a gradual lowering of tariffs.

What, then were the general effects of the National Policy during this period? The Macdonald government proposed to employ a transcontinental railway system and a protective tariff to make the Dominion an integrated industrial state, looking inward to interprovincial trade and across the sea to markets in Great Britain and Europe rather than south to the United States. Economic factors favoured protection at its inception. Canada's depression had been less severe and her recovery more rapid than that of most other countries. Her standard of living was rising and the decrease in transportation costs and the falling of manufacturing costs abroad had set the terms of trade in her favour. The burden of fixed charges was also lightened as the rate of interest had been lowered.

Substantial progress was made in foreign trade during this period. Her imports increased to some extent and her exports increased substantially as she became more industrialized. More raw materials were imported than ever before, to more than make up for a slight decline in some products. Most of the growth of the imports was attributed to normal expansion and to the demands of the construction program of the Canadian Pacific Railway. There was also the opening of the west with a new market for imports.

The opinion in the Maritimes was to a great extent against the policy of protection. It was hoped that the Maritimes would become the heavy manufacturing centre of Canada with their large resources of coal, but such was not the case. Most industries found the burden of higher costs of raw materials too great to allow penetration of the central Canada markets. Nova Scotia was more interested in her export industries which suffered relatively by the policy of protection. Thus the National Policy was a source of resentment to the people of the Maritimes as a whole. Reports from the central provinces were much more enthusiastic. Canadian manufacturers successfully adjusted themselves to the demands of the internal market and, in several cases, invaded the American market. Machinery, woodworking, textiles, paper, and miscellaneous consumer good industries were beneficiaries of the National Policy and underwent considerable expansion. Industries already fairly well established showed less than average increases. The expansion of larger enterprises was more rapid than that of smaller ones in the 1880's.[1)]

Critics of the tariff found a bad fault in that it led to the formation of trusts. There were several flagrant examples of combination and price-fixing in restraint of trade, especially with respect to sugar, the binder twine trade, iron founder's association, farm machinery, undertaker's supplies and coal. Local price controls existed in tobacco, matches and baking powder. Porritt considered this one of the worst abuses of the protective system. The cotton textile industry also underwent large scale combination. An Act was passed in 1889 for the suppression of trusts and combinations in restraint of trade but was entirely unsuccessful.[2)] In 1897 reduction in the tariff was made a potential weapon in the anti-trust fight but little was accomplished by it also.

Among the large industries, the iron and steel producers, the farm machinery industry, and the textile manufacturers were the

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1) Changes in the industrial and commercial life of Canada are discussed in relation to the National Policy in some detail in McDiarmid, op. cit., pp. 180-202.

2) Porritt, op. cit., p. 346.

principal beneficiaries of the National Policy.[1] Resumption of railway building in the 1880's also stimulated iron and steel manufacturing, so that as a result of a combination of the two plus the system of bounties evoked, in five years the average production by five-year periods went up one-third. The farm machinery industry had made rapid progress under the revenue tariff, and enjoyed even greater progress, almost doubling production in the six years following 1879. In Ontario and Quebec, the value of the output for all industries increased by over 100 per cent.[2] Agricultural imports, however, reached their peak in 1885, regardless of the disadvantage of the National Policy. After this time they were steadily reduced until the close of the decade as a result of domestic and tariff competition. Drawback provisions were especially helpful to this industry, since it was largely dependent on imported material. By 1885, the machinery industry was also well established in the export trade with agencies in Europe, South America, and South Africa. Without the National Policy, the larger American units (Deering, etc.) would probably have undersold the Dominion producer.

Every important branch of the textile industry received a boost under the National Policy. There was a great increase in the number, size, and financial strength of the firms employed in its manufactures. This was the heyday of the textile expansion. Towards the end of the period, the industry showed signs of maturity, as combinations developed large stable companies. Capital investment

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1) Skelton, op. cit., pp. 186-191.

2) McDiarmid, op. cit., p. 194.

increased four times and the net value of the product increased thrice from 1880 to 1890.[1)] Imports of cloth decreased slightly but imports of raw cotton increased threefold. Wollen production was less dependent on the tariff but was also benefited by it. All those industries were, for the most part, deeply rooted at the start of the National Policy tariffs. Without protection they would probably have been more closely integrated with the giant corporations evolving in the United States. This is probably particularly true of the farm equipment, iron and steel, and textile industries. Protection did, however, build up industry to a considerable degree during the period. Whether it was or was not economic production was another question which only time could tell.

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1) Ibid., p. 200.

CHAPTER IV

National Policy under the Liberals 1896 - 1914

The election campaign of 1896 was fought on the grounds of protection versus free trade[1] - the Conservatives were still the protectionist party while the Liberals had attacked their policies vehemently and violently during the preceding years. Their campaign had been waged on the platform of free trade, but, on coming into power, they failed to tear down the protective wall which had been erected during the long Conservative reign. Opposition to the National Policy had become stronger and more organized, especially among the farm groups. The Liberals played to these groups in their program, but, once in power, they did not carry out their ideals. Only after 1906, were any real efforts made in the direction of freer trade - protection was again the main theme of this period. The average rate of duty on dutiable imports was about 27 per cent in 1903 compared to 30 per cent in 1896, 32 per cent in 1891 and 23 per cent at the start of the National Policy in 1879 - not a very great change from the rates under the Conservatives. In fact, the free list was reduced by 1 per cent from 61 per cent to 60 per cent from 1896 to 1903 compared to the 70 per cent free list of 1879 (in value of imports).[2]

Before drawing up their first budget in 1897, tariff hearings were conducted at various centres, mostly industrial, throughout the country. There was as yet no great organized opposition to

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1) Skelton, op. cit., p. 200.

2) McDiarmid, op. cit., p. 205.

protection, while the manufacturers were well organized for these hearings. They managed to convince the Liberal government that any change in the tariff policy would severely dislocate industry, with the result that the government abandoned the principle of a tariff for revenue only.

Some schedules were simplified by the tariff of 1897 and mixed duties were replaced by ad valorem rates. A few concessions were made to the farmer but on the duties of the iron and steel industry, the real bases of any Canadian tariff, protection was maintained. There were some reductions in the rates but a broadened system of bounties offset them. Machinery of iron and steel was increased from 25 to 30 per cent with mining machinery free as an added inducement to an expansion of the mining industry. On primary iron and steel products, reductions of from 35 to 75 per cent of previous rates became effective while the secondary iron and steel products were reduced by 12 to 20 per cent of previous duty. Woollen yarns and cloth were reduced slightly but finished cloth was upped from 30 to 35 per cent. The revenue duties on sugars, liquors, and tobacco were increased. There were also various small increases in the cotton schedules at this time. Fielding, Minister of Finance, took the stand that a moderate protective policy was essential as a bargaining weapon for reciprocity, which had always been one of the goals of the Liberal government. However, with the high Dingley tariff of 1897, all hope of better commercial relations with the United States was given up and in retaliation export duties were placed on nickel, copper, lead and wood pulp.[1)]

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1) For a more detailed discussion of tariff changes during this period see Ibid., pp. 206-238 and also Porritt, op. cit., pp. 386-466.

The most spectacular change in the tariff at this time was the beginning of a broad British preferential policy.[1] This first in a series of preferential tariffs was not specifically applied to Britain because of British trade treaties with other countries, notably Germany and Belgium. The rates on goods from Britain, British countries and certain foreign countries offering reciprocal terms to Canada were cut by one-eighth in 1897. During this first year, the rates were unconditional to Great Britain and conditional to other foreign countries. This movement at first was primarily to reconcile low tariff advocates, who were greatly disappointed by the change in Liberal policy. The preferential tariff really did not make any inroads into protection because of the identity of Canadian-American demand and production. British goods were for the most part unsuitable to Canadian needs. Thus, most goods were still imported from the United States in spite of the preferential tariff.

The principal change of 1898 was made in the British preference which was now increased to one-quarter of the general rates of duty. It was at this time applicable only to Britain and British countries, since Britain had been prevailed upon to break her trade treaties with Germany, leaving the way open for imperial trade agreements. In 1899 the bounty system was extended for the iron and steel industry with special concessions to the steel rail industry in this time of railway expansion. Only Canadian produce was to be used in railway construction subsidized by the government. In 1900, the preferential rates were increased to 33-1/3 per cent of the general rates. The

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1) A supplementary study of the British preference is found in Skelton, op. cit., pp. 205-215.

result of the change in the direction of the preference (i.e. to British countries only) was a tariff war with Germany, starting in 1902 when the German government applied her maximum rates to Canada.[1] Canada retaliated in 1903 by placing a surtax equal to one-third of existing duties on German imports. This surtax was not specifically directed against Germany but was applicable to all countries which took discriminating action against Canada. The trade war cut German-Canadian trade severely until it was finally ended in 1910.

Popular opinion, incited no doubt by the manufacturers, was against the huge American trusts which allegedly used Canada as a dumping ground for their products, to the detriment of the Canadian manufacturers. Thus in 1904, the government proposed the first genuine anti-dumping clause to be adopted by any country. By this Act, if the export prices of goods were less than their market value in the country of export, they would be taxed a special duty equal to the difference between the two prices. This tax was not to exceed more than half the duty in most cases and should not apply to goods not manufactured in substantial quantities in Canada. Free goods were not subject to the anti-dumping duty until 1907.[2] 1904 also saw the first curtailment of the British preference due to the pleas of textile manufacturers who were hit hard by the competition of the British textile interests. A basic rate of 30 per cent was put on woollen and cotton goods.

At this time a general revision was proposed for 1907. The purpose of this revision was, according to the government, to

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1) <u>Ibid</u>., p. 235.

2) Porritt, <u>op. cit</u>., p. 422.
Also McDiarmid, <u>op. cit</u>., p. 217 et seq.

develop Canadian resources and build up industry by a proper platform of tariffs, the tariff to be framed from a national viewpoint to enable Canadian producers to meet the competition of foreign labour on equal terms. A ministerial commission was set up which toured the country in late 1905 and early 1906. This time the farmers were organized and condemned protection bitterly.[1] They commended the British preference as some relief from the tariff. This whole attitude bespoke the fact that they had all the penalties of protection with higher prices for manufactures, especially farm machinery, while they achieved no advantage in markets or in prices of farm products. The protectionist pleas continued but the organization was not so strong here as in early years. The Canadian manufacturer wanted the expanding trade of Canada for himself. In case of depression, protection would stem the tide of imports (here again, the weight of the tariff would be thrown on the exporter). It would also enable firms to extend export trade with increased productivity as a result of greater specialization.

By the tariff of 1907, the main class of farm machinery was reduced from 20 per cent to 17½ per cent as a result of pleas of the farmer. However, a 99 per cent drawback was allowed the farm machinery manufacturer on imports of pig iron and steel -the policy of relative protection in effect. To offset this disadvantage to the heavy industry, a 99 per cent drawback was allowed for bituminous coal used in that industry. Duties on wrought iron were increased slightly with electric apparatus and parts also being increased from 25 to 27½ per cent. There were also concessions to the consumer at

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1) Skelton, op. cit., p. 202.

the farmer's expense with the addition of cattle and hogs to the free list. Boots and shoes and textiles were unchanged. The 33-1/3 per cent differential of the British preference was abandoned and a separate list of British preferential articles at varying differential rates were set up. The amount of preference was somewhat reduced, with the advantage being from 7½ to 15 per cent ad valorem.

The greatest innovation at this time was the addition of an intermediate column between the general and British preferential columns. The intermediate schedule was from 2½ to 5 per cent ad valorem less than the general rates. This column was for the purpose of negotiating trade treaties with various countries which could offer Canada reduced rates. The rates were to be extended by order-in-council. France became the first country to secure the intermediate rate with a trade agreement being ratified in 1910 by the French government. Treaties also were made with Japan in 1911 and Italy in 1910. The intermediate schedule was not important, however, until 1935, with the entry of the United States under its terms. Up to that time, a comparatively small volume of goods entered under it. Closer trade relations were also achieved within the British Empire with trade agreements between the Dominion and the British West Indies.

The West still attacked the tariff. The farmers were not satisfied with the 2½ per cent reduction of farm machinery, - their dissatisfaction reached substantial proportions after 1910 as a result of poor crops. In view of an approaching election, the government removed bounties on iron and steel and reached an agreement with Germany which finally ended the trade war. There was also a demand of the prairie west for open markets for what was bought as well as what was sold. This was to be a supporting factor in the bid for reciprocity.

Reciprocity had become a dead issue with the Canadian people. The United States became more favourable to proposals of free trade with Canada, since the Canadian market was very profitable in relation to its size. At the same time Canada became more opposed and indifferent. Other foreign markets were open with a growing export trade with Britain. There was also resentment of previous American high tariffs (The McKinley and Dingley Tariffs).

Initiative in the movement towards reciprocity was now in American hands and began as a result of internal American conditions. There was a great deal of agitation for tariff reform and relief from the high cost of living in the United States, the latter associated with the McKinley and Dingley tariffs and the alleged resultant combinations and imperfect competition. The Payne-Aldrich tariff of 1909 contained some reductions but they were very short of expectations. In particular the reduction on newsprint had been from $6.00 to $3.75 per ton. This angered newspaper publishers who wanted it at a level of at least $2.00 per ton. As a result, the publishers became the principal proponents of reciprocity with Canada and popularized the idea in their newspapers.

The Payne-Aldrich tariff was also the impetus to negotiations for yet another reason. It contained a clause such that if any country discriminated against United States imports, a maximum tariff of 25 per cent over the general rates was to be applied to that country. From the United States point of view, this clause would apply to Canada because of Canada's trade agreement with France. The concessions made by Canada to France gave grounds for the application of the maximum tariff, and, unless Canada were willing to give the same concessions to the United States, then the United States would have to set up the maximum rates. Canada insisted that her intermediate schedule did not apply to any country not giving her concessions in return. President Taft had no desire to start a tariff war and conferences were arranged in 1910, first at Ottawa and the other at Albany. The first was a failure but an agreement was reached at Albany whereby Canada gave the United States intermediate rates on a few unimportant articles and Canada received the American general rates. Canada at the same time gave the same rates to all other countries.

The Albany Conference kept the way cleared for reciprocity negotations, chief exponents of which were the farm groups in Canada and the transportation and commercial interests along the border in the United States. The United States were prepared to offer free trade in agricultural commodities, fish, coal and rough lumber with farm machinery to have a low rate or to be free and the newsprint rate also to be reduced. Agreement was finally reached in January, 1911, to be implemented by joint legislation.[1)]

The agreement itself was somewhat of a compromise. Schedule A embraced articles which were jointly to be admitted free, it included all agricultural and natural products except wool, fish, unfinished lumber, and gypsum, and a few manufactured articles, chief of which were iron and steel sheets. Schedule B comprised

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1) For complete details of trade relations with the United States at this time see Ibid., pp. 217-232.

articles to be admitted at identical rates including secondary products such as canned meat, vegetables, lard, oatmeal, bran, flour, etc., and agricultural implements and machinery of all kinds. Schedule C contained articles on which Canada would reduce her rates such as planed lumber, shingles, iron ore and aluminium. Schedule D was similar for the United States including bituminous coal, etc. Newsprint was to be admitted free as soon as export restrictions were lifted. The reduction of American duties averaged about 10 per cent; in Canada about 5 per cent.

The conclusion of the agreement came as a great surprise to the Canadian parliament and electorate, and the first reaction was favourable. In the United States the agreement had a stormy but successful passage through Congress, being ratified by the Senate in July, 1911, while Canada waited. Laurier was forced to adjourn parliament for a trip to England and the Imperial Conference. Conservative parliamentary opposition became organized and on his return, Laurier was finally forced to take the issue to the country and it became the focal point of the elections of September, 1911. The opposition sparked by the Conservatives based its argument on the following points. The agreement would dislocate Canadian trade and transportation facilities geared to East-West traffic and the Canadian railroads would be ruined. The hope of Imperial preferences, on which Canada had originally set up preferences for Britian, would be gone. Cries from the zealous protectionists that it would ruin industry were heard. (How could it with the great influx of capital at the time, and especially since the agreement did not strike at the heart of Canadian industry). Canadian natural resources would be depleted to the advantage of the United States manufacturer. The old bogey of annexation or political absorption was raised. In the final analysis, economic considerations became of secondary importance as far as the actual campaign was concerned. The economic advantages of a large agricultural market for the Canadian farmer were glossed over. The supporters of reciprocity appealed to the confidence of the people to protect them from the political changes but in vain. The Conservative's imperial and political campaign aided by the arguments of the entrenched interests of manufacturers and railway was too great a combination and the Conservatives won their victory at the polls with a healthy margin. The cause of reciprocity was dead again for another twenty-five years. But by the Underwood tariff of 1913, Canada gained most of the advantages lost by the defeat of reciprocity. The United States continued to maintain a moderate tariff policy towards Canada until 1919.

Thus, during this period there were many significant innovations, but the fundamental protectionism was not changed. This fact is best illustrated by the anti-dumping duties of 1904, by the subsidies to iron and steel and by the selective protection to farm machinery and other industries by means of drawbacks. British preference did not reduce United States trade gains in Canada or seriously reduce the level of duties on protected goods. The policy was funamentally nationalistic and the opposition, led by the West, was not strong enough to carry reciprocity against the vested interests in the face of imperialistic sentiment.

This period was the era of greatest expansion in Canada. There was a rapidly expanding export trade developed in wheat from the

Prairie Provinces and minerals from British Columbia and northern Ontario. Trade in wheat developed, especially with the United Kingdom from seven million bushels in 1901 to twelve million in 1905, forty-three million in 1911 and one hundred and six million in 1914. There was also a large increase in population during the period from 4,833,239 in 1891 to 5,371,315 in 1901 to 7,204,838 in 1911. Immigration from 1897 to 1912 was 2¼ million. The population expansion was most rapid in the Prairie Provinces with British Columbia, Ontario and Quebec having sizeable gains. Along with the agricultural expansion was a new industrial expansion in the Central provinces which was actuated by the large amounts of capital flowing into the country, chiefly from Britain and the United States. Capital movement increased from thirty million dollars in 1900 to five hundred and forty-two million dollars in 1913. With the increase in wealth, the price index rose from 47.9 in 1896 to 64 in 1913 (base 1926 = 100) and the terms of trade were in Canada's favour.[1)]

The total value of imports and exports which was 225 million in 1895 doubled by 1903, trebled by 1910 and almost quadrupled by 1912. The value of imports increased over 6 times from 105 million in 1896 to 671 million in 1913. The relative American share went up from 50 per cent to 65 per cent during this period and the British share declined from 35 to 20 per cent, despite the actual commodity expansion. Exports were considerably behind imports but there was

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1) For details of the trade increase see Ibid., pp. 238 - 242.
See also McDiarmid, op. cit., pp. 239 - 242,
Mackintosh, op. cit., p. 25 and
M. Q. Innis, An Economic History of Canada (Toronto: The Ryerson Press, 1935), p. 286.

still a threefold expansion. Britain took 50 per cent, America 35 per cent of exports at the end of period as compared with the British share of 57 per cent and the American share of 35 per cent at the beginning. The period began with an active balance of trade until 1899, but by 1915 Canada had a negative trade balance of 315 million dollars. The great influx of imports brought Canada substantial revenues in the latter part of period - an increase from 20 million dollars in 1896 to 105 million dollars in 1913.

This was manufacturing's "Golden Age". Industrial expansion followed the flow of capital and the large increase in population.[1] The period from 1900-1910 was the period of greatest industrial expansion of Canada's peacetime economy to date. The net value of production increased over 2½ times from 215 million dollars to 564 million dollars while capital investment increased three times. The scale of operations, rather than an increase in the number of firms, was the criterion of the expansion, as the merger movement swept Canada. Large primary and secondary producers integrated vertically with complementary concerns to extend their control over resources. Price agreements and market pools limited competition. From 1904 to 1911 there were 41 combinations absorbing 196 separate companies, and during the period 1900-1910 the total number of firms decreased slightly while the average capitalization more than doubled from $32,000. to $65,000.

The expansion in manufacturing was fairly general with the exception of the woollen industry which declined. The iron and steel

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1) For the industrial expansion see McDiarmid, op. cit., pp. 242-254, and also Skelton, op. cit., pp. 252-274.

industry, enjoying an expanding market coupled with subsidies and protection, increased threefold in the single decade 1900-1910. Tools and machinery industries also had continued success. The industries of Canada's basic natural resources also expanded tremendously. These include milling, meat packing, tanning and leather good manufacture, and the distilling and tobacco industries. The expansion of the milling industry was especially noteworthy. Also, as a direct result of the tariff, we have the establishment of substantial numbers of branch plants of American firms. Other reasons for this expansion were the increase in size of the Canadian market and the prospect of British preferences in the future.

Canada's heavy industry increased at a very great rate during the period. Between 1896 and 1913, Canadian consumption of pig iron increased 18 times and the iron and steel industry took first place among the manufactures of Canada. A total of 17 million dollars in bounties was paid to the industry from 1883 to 1912 when the bounties were discontinued. Domestic producers took 80 per cent of the domestic market in 1913 compared to 67 per cent in 1896. Growth was fairly steady with an increase in the annual production of pig iron from 86,000 tons in 1900 to 715,000 tons in 1910, and an increase in the production of steel ingots from 23,500 tons to 734,000 tons during the decade. By the end of the period Canada's iron and steel industries were established on their present basis with primary industries in the Maritimes, Cape Breton Island and Algoma, and secondary industries at Hamilton and Montreal. Their great increase in this period was due almost wholly to the protection that the industry received from its tariffs and bounties.

In the farm equipment industry, there has always been a clash between the interests of the manufacturers and the farmers who desire cheaper machinery. However, the level of protection offered many attractions to foreign and domestic capital. The duty was high enough to cut down competition from the United States to a great extent and there were sizeable drawbacks on duties of raw materials used in the industry. International Harvester set up its Canadian branch just to avoid the tariff and has branched out until now it is the most important producer of farm equipment. After 1898, Canada (and Massey-Harris in particular) had a fairly large export trade despite severe competition from American firms. Exports did not, however, keep pace with production which increased from $9,500,000. in 1901 to $20,723,000. in 1913 with increase of exports being from $1,743,000. to $4,319,000. Charges of export dumping were heard from farmers' organizations but this charge was hard to prove because of differences in quality and size between domestic production and foreign exportation and also because of the cheapness of ocean rates in comparison to railway rates (a differential of about $10,00). The combination movement was particularly strong in this industry with capital flowing in during the whole period. Prices were on an average about 12 per cent higher than American prices.

After 1896, the fortunes of the other great industry, textiles, were uncertain. Cotton more than held its own after protesting the British preference which hit this industry hardest. The net value of production increased from $4,244.000. in 1870 to $6,200.000. in 1900 and to $10,605,000. in 1910. Imports of raw cotton also increased 120 per cent between 1890 and 1910. The development was largely due to the great increase in domestic market coupled with generous tariff protection. Combination was greatest in this industry. After the addition of new blood into the industry in 1900, competition was intensified for a time, but in 1905 the Dominion Textile Company was set up which controlled one-half of the capital equipment of the industry. In 1910 there were further consolidations. This industry was concentrated in Quebec which supplied cheap power and cheap labour. The other branch of the textiles, the woollen industry was hard hit. It could not meet the demand of a wider and more exacting market. The output declined from 14 to 7.6 million yards from 1900 to 1910 and only 87 mills were left out of 377 in 1890. Neither higher duties nor combination could save this industry from severe adjustment.

Thus during the whole period we see that large scale manufacturing enterprises surplanted small establishments of the early National Policy days. The tariff became a more selective and effective device for protection and competition became more restricted by combination to produce higher price differentials between the United States and Canada than in earlier periods. We also see a large industrial expansion as new industries and branch plants are attracted to Canada, since the growth of the country made a protected domestic market profitable for the large and efficient producer.

CHAPTER V

War and Post-War 1914 - 1930

As has been previously stated, the Underwood tariff of 1913 in the United States had reduced their level of protection to about the Canadian level. Canada was given most of the export advantages offered in the ill-fated reciprocity agreement of 1911, with the removal of duties on wood pulp and in 1917 on Canadian wheat. These were two of the chief exports to the United States. There were also in this period several abortive attempts to set up a tariff commission "to take the tariff out of politics". With the final lapsing of the iron and steel subsidies in 1912, there was some upward adjustment of duties on these products to start off the period. The intermediate rate on pig iron was raised from $2.25 per ton to the general schedule level of $2.50 per ton while wire rods were given duties of $2.25 on the preferential list and $3.50 on the intermediate and general lists. Furthermore, some drawbacks were granted to the industry. Also in 1914 there was a lowering of the rates on farm machinery, the duty on harvesters, reapers and mowers being lowered from 17½ to 12½ per cent.

Then came the War and the increased need of revenue which the tariff must supply, as it was at the time, the principal fiscal instrument available. The rates on revenue producers such as tea, coffee, corn, sugar and cigarettes were raised. Furthermore in April, 1915, a surtax of 5 per cent on British preferential rates and of 7½ per cent on intermediate and general rates were imposed on all dutiable imports except materials used in the manufacture of harvesting equipment, binder twine, and munitions, with crude petroleum being exempted in 1916.[1] This horizontal increase was rather unfairly attacked as a protectionist device; the demand being so great in wartime that it really was no great deterrent from trade. It was, however, linked with charges of monopoly against Canadian manufacturers of farm machinery, fertilizers, cement and textiles.

The war laid the foundations for drastic tariff changes in most countries, with a new resurgence of economic nationalism. In Canada this was not the trend, the tariff remaining relatively stable with few important changes before the removal of the surtax in 1919 and 1920. In 1918 additional revenue duties were placed on tea, coffee, tobacco and liquor. Instead of raising the tariff higher during this wartime period, the government introduced new direct and indirect taxes.

In 1916 a Business Profits War Tax was imposed, (of little long-run importance) and in 1917 the first Dominion income tax was begun.[2] This was a very important development in the fiscal history of Canada. In fact after 1921, the income tax usurped the position of the tariff as the principal revenue-producing agent of the Dominion, a position which it has held ever since with the exception of the years 1928-31. By the introduction of income tax, a significant step was taken towards the broadening of the Dominion's tax base, a step which could have many political results,

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1) Mackintosh, op. cit., p. 51.
For additional details of changes in tariff rates during the war and post-war period see McDiarmid, op. cit., pp. 255-271.

2) Dominion Bureau of Statistics, Canada Year Book, 1926 (Ottawa: The King's Printer, 1927), pp. 755-759.

one of the most important of which was its effect on the commercial policy, i.e. protection versus free trade. Heretofore, there was a definite limit to the height to which protection could be raised, this limit being the revenue needs of the country. A tariff cannot be highly protective and at the same time be revenue-producing. The two policies of protection and revenue are opposed; any increase in the level of effective protection must cut down the revenue obtained from the tariff, since it will cut down the amount of imports. But with the addition of the income tax to Canada's fiscal program, it would now be possible, if necessary, to carry protection very much further. This was something which could not be done before. While previously there had been a real limit to the amount of protection that could be imposed, this had now been swept away by the imposition of the income tax and its subsequent rise in importance in the public finance of the Dominion. This was certainly one of the most important developments of the entire period.

Wartime also brought a strengthening of Imperial unity and the widening of the margin of preference by the revenue duties of 1915. The 1917 Imperial War Conference held in London recommended a system of Empire tariff preferences. In 1919 Canada increased the preference even more by the removal of the surtax of 5 per cent on all articles while the 7½ per cent additional tax was kept on some articles until 1920. Foodstuffs, linen, cotton and wool clothing, boots and shoes, fur articles, leather goods, farm machinery, mining machinery, petroleum and bituminous coal were relieved of these additional war taxes in all schedules in 1919 while wheat, wheat flour, potatoes, crude petroleum, tin, copper, nickel, rolled iron and steel hoops, and iron ore were placed on the free list. The remaining war duties were removed in 1920. Members of the cabinet also made one of the usual tours of the country in 1920 to get opinions on the tariff. The west was found to be highly opposed to upward revision. It had been hit hard by the United States emergency tariff, especially with regard to the ranching industry, and did not want to pay higher prices for domestically-produced protected goods. Some of the war-created trade was also slipping away by 1920 as European agriculture returned to peacetime production. Added to the trade difficulties was the currency depreciation abroad which made profitable selling there difficult, and the rise in the value of United States currency, which made for increased costs to importers.

Thus in 1920 the aims of the government were stated as being moderate protection for industrial stability, encouragement to new and desirable industries, the protection of the consumer and more imperial trade.[1] In 1921 the tariff was substantially that of ten years before. In 1922 there were 2½ per cent and 5 per cent reductions made on farm machinery, the general levies of the most important classes being 10 and 15 per cent; 2½ per cent reductions in textiles to lower the rates from 25 to 35 per cent under intermediate and general schedules; and minor reductions on fishing, mining, and forestry equipment. These reductions were all in line with the policy of cheaper capital equipment for the primary producer. No important changes were made in 1923, another year of imperial conferences, with the exception of a 10 per cent discount on existing rates of the British preference on goods shipped directly

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1) McDiarmid, op. cit., p. 261.

to Canadian ports. The purpose of this was to help the Canadian railways by putting an end to the transhipment of Canada-bound goods from American ports.

During the next ten years, the stability of the Dominion's commercial relations was broken only by reductions on some articles of capital equipment, automobiles, coal, and textile products. There was also the extension of the intermediate schedules to a large group of countries by means of negotiated trade agreements. In 1924 the farm machinery rates were again reduced to the level of 5 per cent, 7½ per cent and 12 per cent under the British preference, intermediate, and general schedules. Capital equipment used in mining, lumbering, and fishing was also reduced. To offset these reductions to the manufacturer, iron and steel used in the manufacture of farm machinery entered free and the sales tax of 5 per cent was removed from most of the commodities reduced. In 1925 the dumping duty was clarified with the penalty to equal the difference between the value of the goods for custom's entry and the export price of the goods to Canada. The government also announced its intention to set up an advisory board before another general revision was carried through.

The changes in 1926 were more numerous. The principle of drawbacks was extended to some automobile parts and also to the rayon industry. In addition a minor change of considerable discriminatory effect denied the British preference to goods not shipped directly to a Canadian port (this was in effect until 1938). Automobiles, previously taxed at 35 per cent were given a differential rating. High priced automobiles (over $1,200.) had rates of 27½, 25 and 15 per cent under the general, intermediate and British preferential schedules while those under $1,200. were rated at 20, 17½ and 12½ per cent. However, the excise tax of 5 per cent was removed from the domestic production of cars but retained on imports. By this device, protection was really raised by another 6 per cent. The other important change of this year was the creation of the Advisory Board on Tariffs and Taxation to create a "scientific" tariff.

By 1928 the Advisory Board was making recommendations, in response to which the duty on cotton goods was reduced from 37½ to 30 per cent in the general schedules. Other textile items were also adjusted downwards, while, in compensation, the drawback provisions were widened. Yarns and other materials for textiles, certain grades of paper, aircraft engine parts, bituminous coal for certain industrial purposes and metal tubing for natural gas were included in these provisions. In 1929, mining machinery was placed on the free list. The Liberal changes during the period were chiefly on capital equipment for exporters, except for the reductions on consumers' goods, e.g. automobiles, textiles and farm machinery. Drawbacks were used to facilitate these reductions without too great a loss of the protection enjoyed. In addition, a large number of commercial treaties based on the intermediate and general schedules were made with other countries. It is to these that we will now turn.

In 1920 Canada established better trade relations with the West Indies by means of a new trade treaty and in 1926 the treaty was again revised and the provisions broadened. Duties were not to be in excess of 50 per cent of general rates on non-specified products except tobacco and liquor. Specific preferences were established on sugar, bananas, lime-juice, rum, coffee and tropical products. In return Canada received concessions on flour, fish, cement, boots and shoes, apples, and dairy products. However, the most important of the foreign trade treaties was that with France, negotiated in 1922. By its terms, the intermediate rates were extended to all products from France on which special concessions were not given. These were given on some manufactures, textile fabrics and clothing of various sorts. In return France gave Canada minimum tariff privileges on manufactured products, and a substantial reduction from general rates on livestock, meat and poultry products. By the terms of the usual most-favoured ration agreements, all countries entering into agreements with Canada were entitled to similar tariff and trade concessions. Countries doing this were Italy in 1923, Belgium in 1924, Finland and the Netherlands in 1925, Czechoslovakia, Spain, Yugoslavia, Hungary, Roumania, Lithuania, Latvia, Estonia and Portugal. Closer relations were also established with the countries of South America and the Orient.

Thus we see in the period 1912-1930 a trend contrary to world tariff developments and especially to those in the United States. Canada's tariffs were reduced while those of other countries were rising. Too, we have in this period, bi-partisan agreement on the tariff question. It had changed from the political question it once was. Some of the most important developments of the period were the strengthened economic imperialism throughout the Empire and the establishment in Canada of the Advisory Board on Tariffs and Taxation.

Now we must look at the general facts of these trade policies as far as they are concerned with the industrial growth of the country.[1)] The inter-war period was one of consolidation of industrial progress. The capital expansion of 1900-1914 supplemented by the integration and diversification of the war years had led to mass production and centralization in most industries by 1920. The "infant industry" argument for protection must now be left behind. The new slogan for protection was the safeguarding of Canadian labour standards and the protection of capital invested in established industries. Thus we have a general weakening of the protectionist case after 1920 and a resultant political success of the Liberal low tariff policy. Economic pressure in 1930 led to a widespread support for a return to protection, with the tariff as the stimulant of domestic recovery.

By 1914 the decade and a half of prosperity associated with foreign investment and the westward expansion, had resulted in an over-expanded railway system and an excess capacity for capital goods production. A severe strain was put on the economy for industry to adjust itself to increased production of consumer goods, and the slowing down of the rate of new investment. However, this period of transition was made easy by the war with its great demand, both domestic and export. The new railway system was fully utilized and the iron and steel industry was given a new lease on life due to the expanding munitions industry of the war years. The Prairie Provinces expanded as a domestic market and the Quebec cotton and woollen industry took over the reductions of imports from Britain,

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1) For an extension of trade and industrial changes during the period see <u>Ibid</u>., pp. 321-327.

due to war's exigencies. The Maritimes became a focal point for exports to Europe and the West Indies.

The protective features of the horizontal increases of 1915 were of secondary importance, as has already been mentioned; the major emphasis was upon exports of food and munitions. The extractive industries and agriculture also enjoyed the boom along with manufacturing. From 1913 to 1918, newsprint and wood pulp shipments increased fivefold and from 1914 to 1920 the Prairie Provinces field crop acreage increased 84 per cent and the value of the field crops for the Dominion increased 60 per cent.

After the war there was a remarkable increase in the production of consumers' goods, e.g. the net value of rubber products was 3.5 million dollars in 1910 and increased to 30 million dollars in 1923. Textiles increased in value from 63 million dollars to 100 million dollars while chemical production increased 4½ times and electric light and power 5 times. The value of furniture doubled as did the iron and steel output. The physical proportion of all manufactured goods was 44 per cent greater, due mostly to the inflated purchasing power of the war economy. The post-war reaction of 1921-22 was mainly a price depression - the volume of production and exports was well maintained. In fact the physical quantity of exports and the physical volume of business increased by 18 and 6 per cent respectively from 1920-1922. The price decline was, however, quite drastic. The wholesale price index fell by 37 per cent, export prices fell by 41 per cent and wheat prices by 57 per cent. Nevertheless, exports increased in volume by 36 per cent between 1920 and 1923. By 1925 Canadian expansion had been resumed. During the next four years, 1926 to 1929, the national income rose 19 per cent and the index of home investment 54 per cent. The main expansion was in non-ferrous metal mining and the rise of the pulp and paper industry with the development of cheap electric power. Gold mining was also of rising importance as was wheat farming due to high yields, continuing export demand and better marketing methods of Canadian wheat and flour.

In the basic iron and steel industry there was no contraction in 1912 after the removal of bounties. In fact, production of pig iron exceeded one million tons in 1913, to be followed by a recession of one-third in 1914. A quick recovery followed due to the war, in which it played a valuable part. In 1918 the production of steel ingots and castings was about two-thirds as great as in 1913 while ferro-alloy steels increased $5\frac{1}{2}$ times from 7.2 to 39.9 thousand tons. Production in the primary industry remained at a high level through 1920 due to unfilled contracts and deferred replacements. Following the crisis of 1921, however, the industry did not regain its 1921 level until 1928, and then prosperity was short-lived as the over-speculation in railway equipment retarded healthy expansion and made the industry easy prey for the depression.

The tariff on farm machinery had long been a focal point of controversy because of its intimate relation to agriculture and also because the principal markets were in the free trade West with the centres of production in Ontario. In addition, the fact that Canada could develop large export markets in the face of United States competition was another good reason for the industry to be on a free trade or low tariff basis. However, each reduction was accompanied by a handout to the manufacturer, e.g. 1919 reductions accompanied by lowered freight rates to the West and the 1924 reduction by remission of the sales tax on materials used in production.

The prosperity of this industry is always closely correlated to agricultural prosperity. Wartime demand and high prices in agriculture terminated its recession of 1914, but rising prices for materials and labour kept profits at a minimum level during the war period. The export trade was profitable, increasing from 4 million dollars in 1916 to 9 million dollars in 1918 and 11.5 million dollars in 1919. Prosperity was also helped along by the war revenue duties which were applied in 1915 and not removed until 1919. During the early 1920's, the industry's position weakened as a result of falling agricultural income and rigid material and labour costs. The value of output fell from 131 per cent of 1926 levels in 1920 to 48 per cent in 1922 and the volume of production fell slightly more, from 141 per cent to 51 per cent. During the war wheat prices rose higher than that of farm machinery but they fell abruptly, intensifying agricultural opposition to high tariffs after the war. Farm prices were only 25 per cent higher in 1923 than in 1913 whereas implement prices were up 70 per cent. Even at that, all branches of the industry experienced losses in 1921 and 1922. Beginning in 1924, the tariff was revenue-producing but the industry was helped along by placing some raw materials on the free list and eliminating the sales tax on other raw materials. After 1925, rising prices and higher yields created a favourable market and the industry needed no protection. Implement exports after a violent relapse reached 9 million dollars in 1924 and almost double that by 1930.

Then came trouble!

We shall next consider briefly one of the leading durable consumer goods industry, the automobile industry. Not until the war years was full scale production achieved in this industry with a production of 94,000 cars in 1917 and from that time on over 100,000 yearly. In this field there is no strictly Canadian concern. The concentration of the market is in the hands of Ford, General Motors and Chrysler. The period was one of great expansion in this industry, not seriously damaged by the lowered rates of the 1926 revision. But again, this industry was hard hit by the depression.

The textile industry also expanded during the war years with the consumption of raw cotton increasing from 77 million pounds in 1913 to 96 million pounds in 1920. Three large firms dominated the industry and the tariff remained at the 1907 levels except for the wartime increases from 1915 to 1920. After 1920 the trend of rates was downward with reductions in 1922, 1923 and 1924, after which there were no further important changes until 1930. These reductions caused little interruption to growth with 115 million pounds of raw cotton being used in 1935. The profits remained quite good over the period with wages low but tending to rise somewhat. Woollens and worsted products had hard times however, the number of mills declining from 66 in 1920 to 46 in 1930. There were no great cyclical fluctuations, because of price reductions in raw materials and unorganized labour. The changes in output from year to year were small, even after 1931.

The main features of Canadian development from 1914 to 1930 were not related to the tariff except as it induced American corporations to make direct investments in Canada, e.g. in 1922, $237,000,000. in long-term capital entered Canada. By the end of 1929, 1071 American firms had branches in Canada along with 172 British and 17 foreign. Thus no outstanding achievements or disadvantages can be attributed to the comparatively moderate and stable tariffs as far as manufacturing in general is concerned. Manufacturers increased their share of the net national income from 31 per cent in 1925 to 45 per cent in 1929, due mainly to the expansion in smelting, electrical and equipment production and to the development of the automobile industry. Many new industries became prominent during the period, most of which were affiliates or branches of the great consumer and capital equipment producers of the United States. Nearly all had some degree of protection while many represented only the last stages in manufacture.

CHAPTER VI

Depression And Recovery 1930 - 1939

Favourable demand and improved techniques of production resulted in a great expansion of exports and a still greater expansion of imports during the last years of the preceding period. However there were definite weaknesses in the Canadian economy. Wheat and flour accounted for more than one quarter of Canadian exports and their prices were extremely susceptible to outside influences. This was also true of newsprint production in Canada, another important ingredient of the export trade. Then, too, there was a shift of a larger proportion of the population into vulnerable occupations i. e. increasing numbers of unskilled labourers in the construction industry, which would be subject to retrenchment in a period of depression. Thus we have a high national income dependent on the maintenance of exports, the chief of which were subject to wide variations in price and, in particular, wheat which was subject to increased home competition from European countries.[1)]

To add to the dangers of the times was the easy-money policy of the United States in 1927, which gave fresh stimulation to capital investment in the United States and elsewhere, precipitating the stock market boom of 1928-29. This emphasis on monetary expansion and on capital export as a means of adjusting world production and trade magnified the ultimate collapse. The world depression

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1) A good summary of the course of depression and recovery is to be found in Mackintosh, op. cit., pp. 54-71.

that followed the collapse of the stock exchange in 1929 was peculiar in its magnitude and incidence. Along with the industrial collapse came an agricultural crisis. This was due to the policy of agricultural protection carried on in European countries after 1925. With the great decline in agricultural prices, food importing countries raised their tariffs to unprecedented heights to protect their own producers. In fact by 1932, France, Germany and England were paying two and a half times the Liverpool price for overseas wheat for their own home-grown product. This resulted in even lower prices for wheat, along with the curtailment of consumption in affected countries.

With the industrial crisis, there were also catastrophic declines in the prices of non-agricultural raw materials. Another feature of the depression was a great contraction in international trade. The fall in prices had been greatest in raw materials; the fall in quantities had been greatest in manufactures and least in food-stuffs. This fall in world trade was a due result of trade policies of most countries which became a "save what you can" policy. Thus we have a strong swing to protectionism in all countries, to shelter the home producer from the rapidly falling price levels. Since approximately one-third of the Canadian national income is derived directly from exports, Canada was quickly drawn into the world depression, and as a defence, adopted high tariffs once more.

The object of economic policy from 1930 on was recovery, and a tariff revision was deemed necessary to achieve this. The tariff was extended and broadened when the collapse occurred. Between 1929 and 1939 there were three important events in the tariff program.

The first was the change in rates and administrative powers by the Conservative Government when they came into power in 1930; the second was the Ottawa Conference of 1932; and the last was the Canadian-American trade agreement of 1935. In 1930, economic nationalism was installed in the Canadian economy; in 1932, economic imperialism was established without the loss of vigorous opposition to freer trade with the United States; and in 1935, the Liberals effected freer trade with the United States without affecting the practices of the Ottawa agreement.[1)]

The turning point of economic policy came with the Dunning tariff of May, 1930, in which the Liberals adopted a retaliatory policy towards the United States with the high agricultural protectionism of their Smoot-Hawley Tariff. The series of reductions of the preceding period was terminated and countervailing duties were established, with a broad extension of preferences to Britain, the Empire, and other most favoured nations. The Liberals proposed that certain Canadian duties be raised to the level imposed by foreign countries. (Meat, poultry and agricultural products were specifically mentioned and the attack was aimed at the United States.) There was also a thorough upward revision of iron and steel schedules and a widening of the British preference. Under the general listing, rates were increased on 54 items and decreased on 46; the intermediate schedule had 35 increases and 98 decreases; while the British preferential schedule had 11 increases and 70 decreases.

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1) For a detailed discussion of tariff changes from 1930-1939 see McDiarmid, op. cit., pp. 272-305.

The discriminatory feature of the tariff was strengthened by this revision, but, as a remedial measure, it did not prove overly effective. The underlying motive of Liberal policy at this time was to encourage exports but the economic importance of their measures was small as the government soon left office, and the restrictions were carried much further by the Conservatives.

The political debates in the campaign of 1930 were similar to those of the National Policy elections of 60 years before. The foremost issues were again opposition to the United States and its tariff policies, desire for preference in the British market, and economic depression. The Conservatives were prepared in their platform to give preferences to Britain over the United States and, aided by the deepening depression, they came into power in July 1930. Prime Minister Bennett stated that imports should consist only of goods not made in Canada and a policy of full and complete protection was instituted. The principle of selective protection was definitely abandoned.

The changes in rates were confined largely to the general and intermediate schedules, although even the British preference did not go unscathed. The prevention of dumping was aided by new administrative controls, in fact, administrative devices raised the effective rate of the tariff by a 10 per cent additional tax. Substantial specific duties were combined with prevailing or augmented ad valorem rates. The principal beneficiary of this type of revision was the textile industry. After June 1931 increases were levied on bituminous coal, agricultural machinery, boots and shoes, tinplate, mining machinery and the entire textile and iron and steel schedules.

Some essential materials, such as aluminium, gutta-percha, and machinery not made in Canada, remained on the free list. Even the British preferential rates were raised, while usually the general and intermediate rates were increased still more. There was also a special excise tax placed on all imports, while the upper limit of the dumping duties was raised from 15 to 50 per cent.

In 1930 Mr. Bennett also went to the Imperial Conference in London to try to obtain a 10 per cent preference on the British market, to help ease the Canadian export industries to some degree. In this he was unsuccessful, but before 1932 and the next Conference, the British Government ended their policy of free trade. A 10 per cent tariff was placed on all imports with the exception of wheat, meat and essential raw materials, with imports from the Empire being exempt from this duty, pending the Ottawa Conference of 1932. Also, during these years, the Bennett government negotiated several Empire trade agreements with Australia and New Zealand. The British preferential rates were the basis of these bilateral treaties, with rates lower than these on major items of non-competitive goods and higher on competitive goods. The first trade agreement with the Union of South Africa was signed in 1932, and one with Rhodesia was completed just after the Ottawa Conference. These trade treaties were not of too great importance at this time, however.

And then came the Ottawa Conference of 1932 to further bind Canada and Great Britain, with economic ties in line with Canada's policy of importing as much as possible from countries with which she had a large export trade.[1] The United Kingdom gave concessions

1) *Ibid.*, p. 282 et seq.

to all her colonies and dominions at once, these concessions being of five types. (1) The existing margins of preference were guaranteed for five years. (2) All categories of Empire produce coming in free under the British Importations Act continued free during the tenure of the agreement. (3) Certain raw materials were taxed when of foreign origin but free when from Empire countries - thus Canada was given a margin of preference. (4) Britain replaced ad valorem with specific duties to maintain the absolute margin of preference against foreign countries. (5) Imports of meat became subject to a liberal quota system. The duration of the agreement was to be five years after which Britain could impose a preferential duty on all Dominion produce, raising foreign duties so as to preserve the margin of preference. Duties on wheat and other necessaries might be lifted entirely if the dominions could not supply enough at the existing world market rates.

The schedules of the Canadian tariff were much affected by the Ottawa agreement. In 132 cases, duties on British goods were reduced, in 83 cases, the margin of preference was increased by raising the general rates, and in 79 cases, goods from the United Kingdom were placed on the free list. The Dominions also agreed (1) to give protection only to industries reasonably assured of sound opportunities of success, (2) to keep protective duties (British preference) down to a level such that United Kingdom producers could compete on a reasonable basis with special considerations for industries not fully established, (3) existing duties to be subject to revision in line with principle (2). Canada also agreed to remove surcharges and exchange dumping duties on British goods.

Canada's commercial relations with other countries were modified by the Ottawa agreements. In June 1933 a new French convention was negotiated in line with the tightened commercial policy of the 1930's. Under its terms there was to be admission into France of a substantial group of natural and manufactured products at French minimum tariff rates and at general rates less a discount of from 40 to 75 per cent. The minimum tariff was to apply to meat and dairy products, fish, wheat, apples, timber products, base metals, some iron and steel products, automobiles and their parts. The general rate, less discount, was applied to a smaller number of more highly manufactured and fully processed goods.

In her turn Canada granted concessions to France. Her intermediate rate less discount of from 10 to 25 per cent was placed on a large list of specialized French products and her intermediate rates alone on other groups of items including certain animal and fish products, sugar and molasses, tobacco, liquors, pulp and paper, chemicals, textiles in specialized lines, and non-competitive metal products. In 1935 a similar convention was drafted with Poland. These commercial treaties were somewhat less liberal than those of 1923 and their value was reduced, due to the broadening of Imperial preferences.

At this time there seemed to be little prospect of negotiations with the United States again. However, the Liberals, returned to power in 1935, were in a sound position to bring negotiations to a satisfactory conclusion.[1] While in opposition, they had opposed the Ottawa agreements and, during their period of power, their policy

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1) Ibid., p. 290 et seq.

towards the United States had always been conciliatory, with the single exception of the Dunning budget of 1930. The basis of an agreement was begun in March 1935 and numerous difficulties were ironed out during the spring and summer. The Canadian intermediate tariff was then at the level of the general tariffs of 1927-29. Real advantage could only be obtained by going below the existing intermediate levels. However the agreement was finally signed at the White House on November 15, 1935, with its principal features to become effective on January 1, 1936.

The 1935 agreement reduced many items on the United States list, indluding limes, certain iron alloys, fish, whiskey, fresh fruits and pulpboard to rates lower than the Fordney-McCumber rates of 1922. Newsprint, lumber, shingles, farm implements, asbestos, and maple sugar were the principal of 32 items having the same rates as under the Fordney-McCumber Act, while on another 14 items, the agreement rates were higher. Canada received concessions on 88 items, 63 represented reductions in existing duties, 4 were the binding of existing duties and 21 were the binding of free entry. These reductions partly removed the high duties upon natural products of the Hawley-Smout tariff. The items affected constituted 66 per cent of Canadian exports to the United States in 1934.

In return for these concessions Canada granted most-favoured-nation status to the United States, including the privileges of her intermediate tariff, as granted to other countries. In addition, the United States was given specific reductions in 88 tariff items below the level of most-favoured-nation treatment. The principal machinery item of the Canadian tariff, which was one of the most significant items in Canadian-American foreign trade, was reduced from 35 to

25 per cent. In all, the Dominion reduced rates on 68 items, placed 20 on the free list and undertook not to increase the intermediate duty on 77 and not to impose duties on 15 items then duty free. The United States also insisted that some limitation be placed on the Customs Department, to curtail their practice of placing high valuations for duty on American goods.

While probably important on Canadian import and export trade, the effects of the treaty are inseparable from the general economic recovery in the trading nations and the great drought in the western United States which increased the exports of Canadian agricultural products. By means of this agreement, the intermediate tariff replaced in importance the general tariff for non-British goods. The dumping and valuation clauses, which had been the most effective protection device since 1931, were also modified. The next year, 1936, saw a downward revision of the farm machinery schedule to 5 per cent below the treaty level and the standardization of the automobile tariff at 17½ per cent for all makes of cars. There was a complete downward revision of the textile industry rates, affected by the removal of the specific portion of the compound duties. The British margin of preference was again broadened on the textile manufactures and certain iron and steel products. The nominal duties were again restored on farm machinery. Other changes at this time were not significant.

In 1937, the trade agreement with the United Kingdom was renewed.[1] The United Kingdom reserved the right to take poultry and

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1) Ibid., pp. 295-297.

dairy products off the free list and subject them to a preferential tariff, if necessary; the Dominion was also required to supply substantial amounts of favoured goods at world prices or lose the preference. Wheat, base metals and fish were still given free entry with a margin of preference over other countries. Canadian shipments of bacon and ham, along with cattle and beef were on the free list while the preference was retained on tobacco. A guaranteed margin of preference was also retained, but this time on a smaller list. In return Canada guaranteed Britain certain margins on a list of goods not made in Canada and on another list, regardless of Canadian manufacture. If the duty (general list) became less than the margin, the articles were to enter free of duty. Each country guaranteed not to levy discriminatory duties against the other. They also reserved right to modify the margin of preference if a monopoly or a combine used it to gain an advantage against the consumers. In addition, Canada agreed to exempt particular classes of goods from dumping duties.

A new trade agreement was negotiated with the United States in the following year.[1)] Canada expanded her list of concessions (duties below intermediate rates) to candy, honey, cigarettes, certain tropical fruits, a general list of chemicals and drugs, paint materials, certain metal alloys and electric supplies and materials. There were also concessions on the iron and steel list (bars, rods, sheets and plates). Many other commodities were also guaranteed the intermediate tariff or, in some cases, put on the free list. These

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1) Ibid., pp. 298-301.

advantages were also to be extended to any third country, and there was provision for modification of the agreement in the event of currency depreciation, which might adversely affect the other country. Canada in her turn received concessions on an extended list also. Building materials, certain iron and steel products, aluminium, certain metallic minerals and alloys, and a substantial list of manufactured lumber products were given lower duties ranging down to 5 per cent ad valorem. There were also low duties for meat and dairy products with quota restrictions, after which the duty was doubled. Paper products, fox furs, gloves, hose, tubing and drugs of animal origin were added to the list.

In 1939 the 3 per cent excise tax was virtually abolished, being applied now only to the insignificant volume of imports under the general tariff. New duties of 5 per cent were placed on tin in blocks, pigs and bars, and on crude rubber from non-British sources. Duties of 7½, 15 and 25 per cent were placed on copper alloys while magnesium alloys were dutiable at the rates of 5, 12½ and 25 per cent. Drawbacks of 50 per cent were allowed on bituminous coal when it was converted into coke.

The tariff administration also became, in the hands of the Conservatives, a powerful weapon for protection.[1] The power to fix and alter duties was inherently a legislative function but during the decade of the 1930's and especially from 1930-1935, the effective level of protection was as much subject to executive as to legislative control. Special enactments of previous decades, that is anti-monopoly sections of the Acts of 1887 and 1889 and the dumping clause

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1) For a detailed discussion of administrative changes as a means of furthering protection see Ibid., pp. 306-321.

of 1904, had bestowed rate-changing powers on the executive. After 1930, these executive powers were used to a greatly increased degree. The whole administrative procedure was tightened to implement a high degree of protection, much above the level of the high tariffs themselves.

The value for duty became, along with the special dumping duties, almost an impregnable barrier to imports. Value for duty was determined in several ways: (a) It must be equivalent to the price charged jobbers and wholesalers at the time and place of direct shipment to Canada and (b) no less than the actual cost of production of similar goods plus a reasonable advance for selling costs and profit. (c) Also no discount could be allowed from the list price that was not allowed in the country of export in the usual course of trade. The governor-in-council could set maximum rates of discount. American automobile manufacturers felt this clause severely, as they were not allowed to give a discount of more than 20 per cent off factory list prices, while American distributors were given discounts of from 35 to 40 per cent. Real teeth were put in the valuation clauses by the dumping clause. The 1930 additions to this clause had a two-fold purpose. They established a basis for using administrative action to raise the acual duties. Dumping duties could be levied equal in amount to the difference between value determined and the selling price of goods to the Canadian importer. All these gave the administration broad new powers over the effective rate of duty.

The power of the executive to fix prices at which goods entered Canada was practically unlimited. Special dumping duties were imposed if import prices were lower than the value for duty calculated by any of several criteria: 1. Cost of production plus reasonable profit. 2. The list price less discount as determined by governor-in-council. 3. Prices as determined by the minister. 4. (Excessive) valuation by the minister when Canadian industries were injuriously affected. In addition exchange dumping duties were applied to goods coming from countries whose exchange had been depreciated, that is, Britain. Criticism of these measures soon arose. As a result of the Ottawa Conference, the power of fixed valuations for goods on the British preferential lists was removed from the minister of customs, but this power remained discriminatory against the United States. However, with the signing of the United States - Canada trade agreement in 1935, the Liberal government had to modify the valuation and dumping duty policy of the Conservatives - a policy which was very effective in helping to cut down imports and preserve the home market for Canadian manufactures during the deepest depression period.

We have now seen just how eventful was the tariff history of the 1930's. It began on a note of tariff retaliation against the United States and a desire for closer trade relations with Britain. The schedule of duties was frankly aimed at limiting imports of all goods in competition with Canadian industry. The tariff was to be the instrument for stimulating investment and employment in the depressed Canadian economy, with the policy of selective protection being superseded by a policy of all-out protection. The Ottawa agreements were negative; Empire preferences were established by denying entrance to foreign goods rather than a general lowering of

Empire rates, while commercial treaties were renegotiated on a narrower basis. This trend towards ultra protectionism was broken by the United States trade agreements of 1935 and 1938 with its reciprocal most-favoured-nation basis. Other aspects of the times were the changes in tariff administration.

The forerunner of depression had been the weakening of raw material and export prices with a fall in national income and a drastic decline in the demand for industrial goods. In late 1929 the real fall began; the price of 17 leading Canadian exports fell 53 per cent from July 1929 to the end of 1932, while agricultural exports declined 70 per cent. There was a 34 per cent sag in general wholesale prices, a 22 per cent decline in the cost of living and a 14 per cent reduction in the prices of the principle manufactured articles under protection - farm products thus losing one-third of their purchasing power in terms of manufactured goods. 1)

The high tariff policy from 1930 on was to be a recovery policy. By preserving the home market for domestic industry, it was hoped to preserve the incomes of all groups. However the declines in industrial production and employment were not stemmed by the tariff adjustments. In 1933, the volume of industrial production had fallen by 52 per cent of the 1929 level and employment and real income had declined by 32 per cent. The index of home investment fell from 154.6 per cent of '26 levels in 1929 to 26.1 per cent in 1933. Trade was also heavily cut by the tariffs and the depression; merchandise imports fell from $1300 million in 1929 to $386 million in 1933 while exports decreased from $1169 million to $492 million.

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1) The results of these tariff changes are expanded in <u>Ibid</u>., pp. 327-339.

Farmers and workers in export industries had a decreased share of the national income, taking 23 per cent in 1929 and only 12 per cent in 1932. Workers in protected industries increased their share by 1 per cent while those in naturally protected industries and services obtained 35 instead of 29 per cent.

The tariff also attracted direct investment, i.e. by Canadian branches of American firms. Higher tariffs and the concessions in Empire markets were the principal lures to achieve this end. In fact, of the 1350 American firms established in Canada by 1934, 26 per cent had been set up between 1930 and 1934, an average of over 90 each year which was double the average of the preceding decade. The gross gain to the national economy from these was fairly substantial, but the price paid for these advantages was higher costs to the consumer.

The government's policy from 1930 on was not only to curtail imports but also to influence their sources as well. This policy found expression in the emergency tariff of 1930 and the tariffs up to and including the Ottawa agreement. The Canadian-American agreements of 1935 and 1938 represented a shift in policy, even though the tariff did remain protectionist during the whole period. The proportional gain in the Canadian market by British Empire countries and particularly by the United Kingdom was largely at the expense of the United States. The depreciation of currencies was probably nearly as important as the agreements in affecting the source of imports and the United Kingdom's exchange advantage was lost in 1933 when the United States depreciated her own currency. Canadian gains in the British market were larger and better sustained than Empire sales, while she also had considerable gains in the United States market.

During the fiscal year ending March, 1931, the decline in total imports amounted to 27 points (27 per cent of the base year total; 1929 = 100); imports from the United States were reduced 30.3 points and those of the United Kingdom about 20.6 points. The following year, all imports declined 25.9 points, those from the United States 26.8 and those from Britain 22.3. Britain was now enjoying about 54.8 per cent of the pre-depresssion market while the United States had only about 40.5 per cent. The United States was still the largest exporter to Canada, in 1932 supplying 60.8 of all Canadian imports as against 18.4 per cent for the British and 20.8 from all other countries. However, in the iron and steel industry, the United States lost its primary position, declining to 25.3 per cent of 1929 levels in 1932, while Britain still retained 72 per cent of her trade. Textiles continued fairly evenly divided. In fact, textile imports were divided in about the same ratio between the United States and the United Kingdom all through the depression. In the fiscal year 1934 (first full year of the Conference), imports from all countries increased 2.2 points, those of Britain by 9.6 points and the United States' share by less than a point. In iron and steel, Britain recovered 25 points while the United States recovered 1.6; shares of textiles were more even, Britain 12.4 and the United States 7.4. In recovery as well as depression, the relative shares of textile imports remained the same but this was not true of iron and steel imports, in which the value of British imports fell more slowly and rose more rapidly than that of the

United States. The trends of 1934 continued during 1935.

After the United States - Canada trade agreements, the share of the United States in Canadian imports improved 8.6 points to 7 for the United Kingdom. We have already seen that there was a more rapid rate of decrease in American exports to Canada than in British during the years 1930 to 1933, but by the end of fiscal 1938, both had regained approximately their former positions, the United Kingdom supply 74.6 per cent of 1929 trade, and the United States 56.4 per cent. At the end of fiscal 1933, the United States had 28 per cent of 1927 trade in textiles but only 4 per cent of the trade in iron and steel, increased to 44 per cent for each in 1938. The United Kingdom had 33 per cent of her 1929 textile market and 65 per cent of the iron and steel market in 1933, which shares she increased to 65.6 per cent and 166.6 per cent respectively in 1938. United States supremacy was thus threatened in the iron and steel industry. Britain made large gains in sheets for tin plating, cotton yarns, and, to a lesser extent, cotton fabrics in general, but failed to make gains in materials in which the United States was well established, such as aluminum manufactures and radios. We can say, however, that the Ottawa agreements gave the United Kingdom a larger share in the Canadian market than she would otherwise have had.

What were the effects of the tariff on the principal industries of the Country?[1] We shall just look at the basic iron and steel industry. In 1930 higher tariffs had been set in this industry to cushion the shock of the great depression. This increase resulted in a larger share of the domestic market being supplied by the

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1) The growth of the major industries is outlined for this and the preceding period in Ibid., pp. 340-377.

Canadian industry - the 54 per cent share of 1928 was increased to 85 per cent in 1933. The tariff policy of this industry was thus successful in its primary object of obtaining a large share of the home market, but this share was not great enough to maintain the industry at a reasonably high level of production. The result was that the iron and steel industry was not a stabilizing factor in the Canadian economy during the depression. The price policy was such as to hit hard the secondary industries for iron and steel products.

The gross value of primary iron and steel production fell from 62 million dollars in 1928 to 18.5 million dollars in 1933, while that of castings and forgings fell from 81.9 to 24.2 million dollars - decreases of 70 per cent as compared with the 44 per cent decrease in the national income. The decline in payrolls and employment was extreme, indicating its diminishing contribution to the national income. Steel prices were also maintained far above level of prices in general, imposing burdens on the taxpayer, consumer, and the secondary industries of the country. Not being integrated with the rest of the manufacturing economy, it became a disturbing rather than stabilizing factor during the depression. On recovery following 1936, it established its position more firmly and the future of this industry looks brighter.

Few industries reacted more violently to the depression than the farm machinery industry; protection of 25 per cent was unable to stem the tide. The value of output shrunk from 106 to 14 per cent from 1927 to 1932 (base = 1926) while the volume of production fell to a similar degree, the larger share of the home market was unable to maintain a fair level of production. The tariff increases slowed down the fall in prices in this industry as compared with the United States, but this was only one factor in maintaining higher prices. Prices were dependent principally on costs and market demand, and the bottom fell out of the market with the agricultural depression. Service and quality competition was keen in the industry but price competition was found to be practically nil. Whenever farm income is high, this industry can get along, but during the depression, it is doubtful if the high tariffs increased income or investment much. This industry did not contribute to a more stable economy.

The depression contributed to a greater concentration of the automobile industry after 1930. The tariff was amended in June, 1931, to give higher protection to this industry, with rates of 20 per cent for cars under a value of $1,200., 30 per cent for cars valued at from $1,200. to $2,100. and 40 per cent over that. The altered basis of valuation combined with the dumping duties raised the effective rates by a flat rate of 10 per cent. The effect of these changes was to reduce imports to 2.9 per cent in 1932, as compared to 23.6 of the total market in 1929. In 1936, the rates were set back to 17½ per cent for all types of automobiles. The tariff was thus seen to be fairly high and was used to secure a larger share of the home market for the industry during the depression. The effect on prices in this industry was greater than the effect on farm machinery prices. Production declined 12 per cent more in Canada than in the United States during the depression as a result of prices increased by protection. This claim for greater protection was based on higher labour costs, higher material and selling costs and higher taxes. Not all are valid however.

Wage differences were not great, Canadian manufacturers being hampered by less efficient use of labour. It is true that the relative cost of materials was higher because of protection in the automobile parts industries but still a 15 per cent protection should suffice for this industry. The economics of large scale production should be the ultimate guide of government policy. Potential demand, and the exploitation of the potential market depends on the stability of economic life.

In 1930, the tariff on textiles was also increased substantially, enhanced by currency devaluation and anti-dumping duties. The trade agreements scaled down the protection but this industry was still one of the chief beneficiaries of the high tariff policy of the 1930's. The industry as a whole fared well. Textile production in 1933 was 96.1 per cent of 1926 level while employment figures were much better than those of Canada as a whole - the fall was only 23 per cent in the cotton industry which was hardest hit. The share of the domestic industry in the home market became greater, while prices fell by an average of 25 to 30 per cent during the depression, even though they were held up somewhat by the high tariffs. Production was well maintained and even some new investment was forthcoming. In fact, the textile industry weathered the depression the best by far of all the major industries studied.

We have now seen the effects of high tariffs on selected industries. What, then, were the effects on special classes of the population?[1] The regional effects of any tariff policy are hard

1) An excellent outline of the incidence of the tariff on different groups and also some industrial changes are to be found in Mackintosh, op. cit., pp. 83-96.

to examine with exactness but we can first make some general statements on the incidence of tariffs. The long-run effect of tariff protection is to reduce the national real income per capita. Along with this is the restriction of export industries through raising their costs, and on expansion of sheltered industries. If the policy is continuous the rate of growth is retarded somewhat. The incomes differentially affected in the long run are the owners of immobile and specialized resources, i.e. land. With this exception, it is not by continuous protection that one region loses but by a change in the level of protection. The Maritimes had already lost out long before this period, since the expansion there had been on the basis of free trade. With the coming of protectionism in 1879, the Maritimes were subjected to a change which adversely affected their export regions. Combined with other reasons, their decline began in the last decades of the nineteenth century.

The increases in the tariff between 1930 and 1933 were the most substantial since the National Policy. The direction of these increases is clear, if not the effects. Relative employment was increased in protected industries, the majority of which were in Ontario and Quebec - this contributed to a relative and absolute reduction of real income in the export regions since prices in protected industries did not follow the falling general price level. The tariff increases in the period of declining prices tempered the decreases in protected prices, while export prices were fully exposed. These export regions would have suffered a great worsening in the terms of trade anyway because of the greater and more rapid decline in prices of raw materials than of fully processed goods in any recession, but the effect was made worse by the policy of protection. Thus the tariff intensifies the difficulties of primary producers. The incomes of these producers were drastically reduced, while the prices of the products they had to buy remained at a high level - the result is a great reduction of real income. How great a reduction may be seen when we consider that the percentage of national income of farmers and workers in export industries dropped from 23 to 12 per cent, almost half in a few years, 1929 to 1932, while prices of protected goods fell only 14 per cent. Thus one-third of their purchasing power was lost in terms of manufactures. Protection was an added blow at the west, which would have been hard hit anyway.

The policy of fighting depression by higher tariffs met with limited success owing to the shrinkage of income from export sales and the collapse of investment in raw material industries which the tariff could not protect. The changes in distribution were a joint result of rigid prices in protected industries and the fall in export prices. As far as trade went, the United Kingdom had a competitive margin in the shrunken Canadian market due to the 1932 agreement, combined with the widening of preference and currency depreciation, an advantage reduced but not eliminated by the 1935 agreement with the United States and the 1933 depreciation of United States exchange. The discriminatory legislation of the period may have been even more important in producing this result.

CHAPTER VII

World War II 1939 - 1948

The depression had, as we have just seen, brought marked changes in the commercial policy of Canada, implemented chiefly by the tariff policy of the Conservative and Liberal governments. However, with the coming of war in 1939 there were to be additional changes all of which were to further the war effort of the country. We may say that there were three basic causes for adjustment of the tariffs of Canada. The first was necessitated by the need for additional revenue, a factor of relatively small importance because of the enormous quantities of money needed to pursue a satisfactory war effort. Tariff rates were also raised to affect excise taxes. This might also be considered as part of the first cause, since the excise taxes were both revenue-producing and also a means of discouraging consumption of non-essentials. The most important reasons were financial however. Insofar as it could, the tariff was used as an instrument to contract imports from the dollar countries and to expand imports from the sterling area, since Canada had a negative current balance of payment with the United States and a positive balance with the United Kingdom and other allied countries. Essential imports were, however, not discouraged but rather encouraged, regardless of their sources.

At the beginning of the war, Canada was still heavily dependent on international trade, especially with the United States and Great Britain. Eighty per cent of Canadian exports were to these countries and almost the same percentage of imports were from these countries.

The exports were split on about an equal basis between the two, but United States had a 60 per cent share of Canadian imports while Great Britain had only 20 per cent.[1] Thus Canada had an unfavourable balance of trade with the United States and a favourable balance with the United Kingdom. With the pre-war free convertibility of sterling, it mattered little that Canada's trade was on such an unstable basis, but with the outbreak of war, Britain ended free convertibility of sterling and Canada's balance of payments was broken into two parts - dollar and sterling balances of payments.

Therefore, in September 16, 1939 the Foreign Exchange Control Board was set up with special powers over foreign exchange.[2] Its first act was to stabilize the depreciation of the Canadian dollar at 10 per cent and along with this there were added various changes in tariff and trade policy in an attempt to reduce imports from the United States and increase purchases of British goods and services. In June 1940 a war exchange tax of 10 per cent ad valorem was imposed on all goods imported into Canada from countries not in the sterling bloc, that is from countries not enjoying British preference rates or British countries having trade agreements with Canada.[3] This tax remained in force until October, 1945. At the same time (June 1940) some reductions were made in British preferential duties on items used in the munitions industry. This principle was carried

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1) L. B. Jack, "The United States Dollar Problem", The Canadian Banker (Toronto: The Canadian Bankers Association, 1940), V.48, p. 35.

2) F. Knox, "Canada's Balance of International Payments", The Annals of the American Academy of Political and Social Science, V.253, September 1947, pp. 134-142.

3) Tariff changes during the war years are discussed in O. J. McDiarmid, "Canada's Tariff Policy", The Annals, pp. 150-163.

further by the War Exchange Conservation Act of December 1940, when the entry of a substantial list of luxury or semi-luxury articles (including prepared cereals, tobacco products, automobiles, certain canned fish and many types of clothing) was prohibited except from the sterling area or under special licence from the Minister of Customs. This ban was subsequently repealed in 1944 when Exchange situation was better. The Amendment to this Act in June 1941 greatly increased the margin of preference on British goods by reducing British preferential duties by 25 per cent on some articles and 50 per cent on a longer list. These discounts and free entry were to be terminated in 1947. Also various changes were made in the rates to offset excise taxes, especially those on automobiles, radios, radio tubes, cameras and other products of the luxury trade. These changes were not successful in their main task, the conservation of foreign exchange. During the early years of the war, imports increased rapidly as Canadian factories tooled for war production and a constantly increasing amount of these imports was from the United States. This was due to the need for additional coal supplies, for iron and steel, petroleum, capital goods and machinery to assist Canada's war effort. There was also a rise in consumer-goods import, as normal sources of supply were cut off. Thus, for the years 1940 and 1941 there was a net loss of American exchange as deficits of $214 and $314 million had to be met.[1)]

Relief came from the United States with the Hyde Park Agreement of April 1941. Its purpose was to assure a maximum North American

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1) A more detailed study of Canada's balance of international payments is to be found in F.A. Knox, "Canada's Balance of International Payments", The Canadian Journal of Economic and Political Science, V.13, Number 3, August, 1947, pp. 345-363.

war output with the co-ordination of the war effort of the two countries and the transfer of manpower from non-essential to essential industries.[1] By its terms, Canada was to concentrate on certain kinds of munitions, strategic materials, aluminum and ships, which products the United States was to purchase from Canada. These sales of war supplies to the United States were one of the most important measures to meet the United States dollar requirements. Then, with the entry of the United States into the war, American government expenditures in Canada, such as the Alaska Highway, the Canal oil project, and the building of various airfields, supplied another source of exchange. From 1942 on, Canada enjoyed a favourable balance of payments with the United States, even accumulating a balance of about $1214 million by the end of 1945. This balance was helped considerably by large exports of grain and non-ferrous metals during the last three years of the war. Thus Hyde Park did its job until its termination in April 1944.

We can easily see that the tariff changes during the war years were of relatively small importance. The attempts at changing the direction of flow of imports was a failure, imports from the United Kingdom remaining at a steady level all through the war with the expected increase practically non-existent. Imports from the United States, on the other hand increased by a remarkable degree.[2] In 1946, the total value of imports was about $1900 million with the United States having three-quarters of the trade. Exports

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1) See W.L.M. King, The Hyde Park Declaration (Ottawa: The King's Printer, 1941).

2) See D.H. Fullerton, "Survey of Canadian Foreign Trade", The Annals, pp. 143-149.

increased from 924 million dollars in 1939 to 3,444 million dollars in 1944 and 3,218 million dollars in 1945. In 1946 they were only 20 per cent below their wartime peak with 38 per cent going to the United States and 26 per cent to the United Kingdom. In this first post-war year, a commodity deficit of about 500 million dollars with the United States replaced the surplus of the war years, a deficit which is continuing to the present time. Thus by 1947, the tariff was approximately at pre-war levels with the repeal of the various emergency acts during the late war and early post-war period, and the balance of payments with the United States was again very serious. Before the war, credits arising from our surplus of exports to the sterling area were available to meet the deficit of United States dollars, but in the post-war period there was little convertible exchange since the bulk of our exports were financed by credits extended by the Dominion government. The deficit is financed mainly by the use of the accummulated reserves and by United States investment in Canada. The problem could be solved only by recovery and re-establishment of world trade on a multilateral basis or by increased exports to the United States and increased imports from other countries.

The attempt was made on November 17, 1947 when Mr. King announced the results of the International Trade Organization Conference which had been taking place in Geneva - the Geneva Conference. Out of it emerged a number of changes in the tariff rates of Canada, the United States and 17 other countries. The following is a summary of the trade and tariff arrangements in general terms:[1] 1. Canada is released from the restrictive "bound" margins of the United Kingdom preferential agreement. 2. Considerable enlargement of the area of reciprocity in Canada's tariff with the United States. 3. Substantial concessions (mostly 50 per cent) in United States tariffs on primary Canadian farm products, fish, lumber and base metals. 4. The "binding against increase" of hundreds of items in the United States Customs tariff. 5. Deductions of 15 to 20 per cent in the average tariff on dutiable goods entering Canada from the United States. 6. Multilateral agreements on basic changes in customs valuations and in administration of customs laws and procedures. Canada gets an "extremely wide range" of concessions from various countries.[2] She obtains concessions and tariff reductions on 90 per cent of the dollar value of her dutiable exports to the United States. United States duties have been cut in half on wheat, wheat flour, salmon, halibut and other fish products, beef, veal, butter, live and dressed poultry, wood porducts, whiskey and gin, among others, while quota restrictions have been removed or larger quotas have been granted. She has also had tariff reductions on many Canadian manufactured goods going to the United States, Belgium, France, Netherlands, Luxembourg, India, Norway, Brazil, Chile, China, Cuba and Czechoslovakia, along with numerous other reductions in a wide variety of products, including non-metallic minerals and non-ferrous metals from the various countries.

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1) E. A. Beder, "Tariffs are Trifles", The Canadian Forum (Toronto: The Canadian Forum Limited), v. 27, number 324, January, 1948, p. 224 et seq.

2) Concessions given and received by Canada, as well as a list of restrictions are to be found in The Globe and Mail, Toronto, November 18, 1947. Also see The Hamilton Spectator, Hamilton, November 18, 1947.

In return Canada reduces 590 items in its most-favoured-nation tariff list and 100 British preference items. She also confirms 460 existing most-favoured-nation rates. Duties are reduced on tobaccos, cigars, cigarettes, liquors, paper products, chemical products, textile products, rubber products, primary steel products, mining and logging machinery, household equipment, e.g. refrigerators and canned meats and fruits, to name some of the more important articles affected. Farm implements and machinery now admitted free are bound against increase as are the present duties on automobiles. The 50 cents per ton duty on anthracite is also removed while the duty on bituminous coal is reduced from 75 to 50 cents.

Thus Canada seemed determined to base her future prosperity on a widening of international trade and a lowering of trade barriers, based on multilateral agreements. But not her immediate future! The country was very short of American dollars; our reserves of gold and currency had dwindled from 1,250 million dollars to 500 million dollars and the current deficit was 75 million dollars per month. Thus, despite the Geneva Conference, new and grim barriers to trade between Canada and the United States had to be effected. There are two basic causes for this forced decision,[1] one, external, which is due to Britain's inability to pay in convertible sterling for her Canadian imports; and two, internal, the great deficiency in steel production. Steel components have to be imported from the United States for automobiles, refrigerators, oil burners,

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1) Beder, op. cit., p. 224 et seq.

electrical equipment, etc. A great amount of American dollars is thus needed to keep pace with production here and as our production increases, the greater the deficit becomes, now that sterling is inconvertible.

Thus the effect of the tariff reductions of the Geneva Conference are temporarily nullified as far as the Canadian consumer is concerned. Special excise taxes of 25 per cent were placed on a long list of durable goods, including automobiles, sporting goods, outboard motors, pleasure launches, firearms, oil burners, motor-cycles, cameras, radios and home appliances, in the hope that consumption of these articles, made with a large percentage of United States parts would be kept down. Items prohibited from import from the United States include semi-luxury or non-essential types such as jewellery, candy, novelties, typewriters, radios, refrigerators, washing machines, furniture, and also, temporarily automobiles, which may later be put on a quota system. In the fruit and vegetable field, some imports are placed on a quota basis while others grown in Canada are prohibited outright. In textiles no restrictions are placed on raw materials and yarns, but almost all other textiles are under another quota. There are also quotas for leathers and for miscellaneous articles such as clocks and watches, smokers' supplies, etc. Travel restrictions were also set up. In addition a loan of 300 million dollars was made from the Export-Import Bank of Washington.

That import restrictions are only temporary was emphasized both by Mr. Abbott, the Minister of Finance and Mr. Howe,[1] the

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1) C. D. Howe, "Canada's New Economic Program", Industrial Canada (Toronto: The Canadian Manufacturers' Association), v. 48, Number 9, January, 1948, p. 67 et seq.

Minister of Trade and Commerce. They are designed to tide Canada over the United States dollar shortage which is to be corrected by the increase of exports to the United States, and from benefits which will be derived from European recovery, and restoration of international trade and free convertibility of currencies. The restrictions are linked up then with the fuller development of Canadian resources and the encouragement of new industries, especially those which can bring an inflow of American dollars. The long-run policy is to increase exports to the United States until they reach the level of our pre-restriction imports. Whether that can be achieved is another question.

CONCLUSION

Canada's tariff policy has been subject to various shifts since 1846. At that time, cut adrift from Great Britain, Canada turned to the United States for relief, which she gained in 1854 with the Reciprocity Treaty. Behind this movement was most of the population of Canada, with the principal support coming from Central Canada. Reciprocity was only in primary products; Canada was not willing to go so far as to allow free admission of American manufactures. In fact, in 1858 and 1859, the tariff was raised to the protectionist level by Cayley and Galt, this on the instigation of the Association for the Promotion of Canadian Industry, the forerunner of the Canadian Manufacturers' Association. By this isolating and excessive policy, and also by the unfriendly Canadian attitude towards the Civil War, Canada alienated the United States with the result that the Elgin-Marcy Treaty was allowed to lapse after its ten year term was up.

The provinces of Canada next turned inward to themselves, and in 1866, Confederation was achieved, with a national economic policy. The tariff for the next 13 years was now solely an instrument of revenue. It was lowered to a general 15 per cent level so as to attract the Maritimes to Confederation and protection became, for a short time, a dead issue. But a combination of circumstances was to overwhelm the free traders by 1879. The first of these was the serious depression of 1873 and the following dumping of foreign goods on the Canadian market. There was also the strong voice of the Canadian Manufacturers' Association raised in a demand for reciprocity, or, failing that, protection. Reciprocity was unachievable at this time, however, and the Conservatives were swept into power in 1879 with strong support from the public in general, hoping for a way out of depression, and from the manufacturers in particular, looking for protection to build up industry.

Since the adoption of the National Policy by the Conservatives in 1879, Canada has never returned to free trade. Protection became the policy of all governments, Liberal and Conservative alike, since that time. The Conservative reign lasted until 1896, with protection being steadily increased to a peak about 1887, with a very slight fall thereafter. Tilley, the Minister of Finance, stated that the policy was for the express purpose of limiting imports and protecting home manufacture. The manufacturers became the chief power behind the economic policy of the government and all benefited, textile manufacturers in particular. However, again the people of Canada seemed to want a change and in 1896, the Conservative reign came to an end, with the Liberals, who had been preaching free trade during their whole stay as Opposition, taking over office.

However, the Liberals introduced no startling changes into the Conservative policy of protection. Although bitterly opposing the Conservative policy, they did not change their opposition into free trade, on attaining power. They did bring one innovation, however, one which still stands - the policy of Imperial preferences. By the general revision of 1907, three different rates were set up, the General, Intermediate and the British Preference, the latter being the lowest. Various concessions were made to different groups of the population and there was a slight downward trend in the rates until 1913. The tariffs of this period were mainly a compromise between the protectionists of Briain and Central Canada and the free trade advocates of the West and the Maritimes. In 1910, Reciprocity was once again the topic of the day, this time at the instigation of the United States. The people of Canada voted down the reciprocity measure and the Conservatives again took over the Government.

With the coming of war in 1914, a special revenue addition was made to the tariff rates, 5 per cent on the British preference list and 7½ per cent on the treaty and general lists. This was solely a wartime revenue measure and had no great effect on the economy, due to the great demand of the war years. These increases were abolished in 1919 and 1920 and no further changes of any great importance occurred until 1930. During the 1920's the tariff was gradually reduced, but not to any great extent, the major reductions being on farm machinery which were reduced to nominal figures in 1924, as the free traders of the West gained more and more political power. The government was still following the policy of compromise throughout the period, with pressure from the differing interests causing slight changes in various items, but no general revisions upwards or downwards.

The Great Depression changed the whole tariff structure. The Conservatives were once more called into power and tariff legislation was set in motion which was highly protectionist, the highest degree of protection that Canada had ever had, with the most significant changes in tariff structure since 1879. Canada became a country not only of very high tariffs but also of unstable rates due to the administrative changes of the Conservatives. Selective protection was definitely abandoned, much to the distress of the agricultural West. Imports were cut drastically and by the Ottawa Agreements, the direction of imports was swayed towards Great Britain. The major developments of the whole period were the trade treaties. On coming into power in 1935, the Liberals managed a trade treaty with the United States. This was the second major development, a counteraction against the Ottawa Conference of 1932. Later new trade treaties were made with Great Britain in 1937 and again with the United States in 1938, as Canada began to shake free of the depression years. The general rates became of increasingly less importance during the 1930's, being replaced in this regard by the treaty rates. By 1939, the rates were not far above those of the 1920's.

With the coming of war in 1939, the tariff became relatively unimportant and had no great function throughout its course. More reliance was placed on outright prohibitions of imports and on fiscal policy. What changes there were, were designed to assist the government in its balance of payments problems, but the tariff was an inadequate instrument to affect this to any great extent. With the conclusion of war, the Geneva Conference brought a great downward revision of tariff rates and the easing of restrictions on international trade on a multilateral basis, but these results were offset by the restrictions set upon us at the same time due to the financial exigencies of the very unfavourable balance of trade with the United States. What does Canada's future hold?

Canada's future prosperity depends to a relatively great extent on the recovery of the world, and especially on European recovery. This is due to the fact that a large proportion of Canada's population is engaged in the production of export commodities. Almost one-third of Canada's national income is dependent on her export trade, and thus her high standard of living is also dependent on it. The Geneva Conference with its consequent lowering of barriers to international trade is a long step in the right direction for a greater future for Canada. Insofar as tariff reductions will help international trade, so will they help Canada.

But at the present time, the Geneva Agreements are not enough to insure Canada's prosperity. Europe must recover before the new era will arrive, and so we now depend also on the Marshall Plan for European recovery. Canada's balance of payments being what they are, sterling must be freely convertible and, in the long run, we must import more from our major market, Great Britain. The Canadian people must realize that only imports can pay for exports, and that any trade restrictions we make must eventually affect us and our standard of living. Especially at this time must we take as much as possible from European countries in return for our exports instead of receiving an increasing share of our imports from the United States. Whenever multilateral balance of payments can be instituted, there will be no problem of American dollars, but, it must be realized, to effect this, we and the other dollar countries must buy more from the sterling bloc, or there will never be enough dollars to go around. In the long run we must buy more from Europe and less from the United

States, either that or sell less to Europe and more to the United States, and with the great necessity for reconstruction in Europe, the better course is an impossible one, in any event, quite out of time with the principles of the Geneva Conference.

What of the trade restrictions with the United States? Canada is very dependent on many American products, especially coal, steel and steel products. With our present technology, this dependence must remain for sometime yet. Left to her own devices, Canada must continue to have trade restrictions for a long time before her export industries could be built up sufficiently to compete on a large enough basis on the American market. Again she is dependent on the Marshall Plan in both the long run and short run aspects. In the short run, it will supply needed American dollars for the goods which Europe buys from Canada for her reconstruction. In the long run, it will supply a greater volume of imports from these countries to help balance her very favourable balance of trade with Europe. Convertibility of sterling will also follow European restoration, which will put a definite end to Canada's difficulties, as far as her dollar shortage goes. Thus, in the short run, Canada is most vitally concerned with the Marshall Plan and in the long run, Canada will be most vitally concerned with a general lowering of the barriers of trade throughout the world.

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