CANADIAN-AMERICAN COMMERCE.

A Study of Trade Relations between Canada and the United States from 1846 to the Present.

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INTRODUCTION

Chapter 1.

The Evolution of the Canadian Economy

Early in the sixteenth century French and Portuguese fishermen ventured across the hazardous Atlantic to the rich fishing grounds of the New World. There along the productive coasts and the teeming Banks of Newfoundland a flourishing industry grew up, supported by the markets in the Catholic countries of Europe. Not until years later did the vast unknown continent that loomed on the horizon lure them beyond the coast. The French, with an abundance of solar salt from the sunny coasts of France, developed green fishing on the coasts. Only when they imitated their English rivals who were prespering with dry fishery on the Banks did they, in search of suitable drying shores, push on to the Gaspe. Unconsciously this move led to the development of the second Canadian industry. On the coast they found that the Indian was willing to trade valuable furs for European goods. Their search for beaver skins led them up the mighty St. Lawrence, up the Ottawa, and into the Precambrian shield. Agriculture was neglected in favor of the trade of the luxury product much demanded in Europe and easily transported because of small bulk.

New France became a land not only for adventurers but a land of potential gain for Old France. Immigrants were sent out in the time of Louis XIV, under Colbert. Fur-traders penetrated farther and farther westward to the prairie lands. The days after the formation of the Hudson's Bay Company when a wedge of English competition was gradually driven into the French monopoly were filled with outbreaks of hostilities. As the increased output of furs depressed prices, attempts to raise prices by such schemes as 'card' money resulted in heavy inflation. Meanwhile in the Maritimes the English drove out the Acadians after a dramatic siege.

The closing of the period of French domination left the country in its primitive economy, still unexploited and undeveloped except for its fur-trade, a rapidly diminishing asset, and its century-old fishing.

With the advent of the British regime, and the opening up of a market for Canada in the Empire, trade and industry began to develop. New England fishermen and traders began to appear in the Maritimes. Loyalists flowed in after 1783 to increase the population. The Preference in the British market during the Napoleonic Wars stimulated the lumbering industry in New Brunswick. Fishing remained the chief industry in Nova Scotia. Loyalists in Upper Canada cultivated the rich plateau and wheat was soon being produced in surplus quantities. Wheat, flour, potast, and lumber became important articles of export. Industry remained on a small local scale, with mills, carriage shops, bootmakers and tanneries. Manufactures were imported at Montreal and Quebec, and reached the American West as well as Upper Canada.

As lumbering became successful on the Ottawa a new and important export was discovered. White pine , floated down the Ottawa, was exported in large quantities to Great Britain where its superior qualities resisted the competition of Baltic wood. Timber ships brought back immigrants to the colonies. The fur-trade was being driven further dowards the Pacific as agriculture and industry slowly gained in importance. In the Maritimes ship-building prospered. Nova Scotia, with a ready market for fish in the West Indies, concentrated on fishing activities, especially in the cod fishery. In the United States a demand was rising for Canadian timber since her own resources had been ruthlessly exploited.

In Upper Canada, although careless methods of cultivation were applied, the rich soil produced surplus crops. Poor immigrants became a problem to the province. After the influx of starving Irish during the potato famine in 1847, restrictions were imposed upon immigration. The opening of the Erie Canal in 1825 cut into the commerce of the port of Montreal. Although the Welland was quickly built in response, the upper St. Lawrence remained an obstacle until the Act of Union 1840 made it possible to combine the finances of Lower Canada, which collected the customs, and the need of Upper Canada for a water route, into a complete canal program.

The withdrawal of the British Preference in 1846 ruined the Canadian milling industry. However, other industries were beginning to appear though still on a very small scale. The St. Maurice and Marmora iron works were producing stoves and axes. Cheap whiskey, a few woollens, some glass and paper were among Canadian manufactures. The limited demand prevented any but small establishments. Tea and silk were smuggled from the United States, and sugar and broadcloth into the United States from Canada.[1]

After 1850 a new era began for Canada. Fishing, fur-trade and lumbering had successively grown up dependent upon water transportation. This period was one of railway construction and

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[1] The colonies were prohibited from importing from the United States any but specified natural commodities, such as grain, and natural products. The importation of mnaufactures from any country except Great Britain was prohibited.

canal improvement. Railway building in the United States made Canadian lines necessary. The coming of steamships necessitated deeper canals. As the costs of railway construction mounted, long-term credit replaced short-term credit. The increasing use of British capital involved a shift from commercialism to capitalism. Confederation of the provinces of Ontario, Quebec, Nova Scotia and New Brunswick widened the possibilities of credit.[1] The Intercolonial Railway gave the inland provinces a means of access through Canadian territory to the Maritimes when the St. Lawrence was closed. The Canadian Pacific Railway made it possible for the development of the East to extend to the West.

The scarcity of large trees caused the square timber industry to be replaced by sawmills producing spruce deals and lumber. As spruce forests were exploited instead of the white pine resources, the pulp industry developed. Pulpwood was first sent to American mills. The embargo on the export of logs from Crown lands in Ontario and Quebec led to the migration of paper mills to the spruce areas along the St. Maurice and the Ottawa.

Little development in agriculture was made in the Maritimes which secured their wheat supplies from Ontario. However, potatoes became an important crop in Prince Edward Island. In Ontario the lands were becoming worn out, although wheat was still exported in large quantities. Coarser grains and livestock replaced wheat growing. Urban development and the consequent demand for dairy products led to concentration on milk, butter and cheese. Railway building stimulated the iron industry by its demand for rails and car wheels. Agricultural machinery and implements were manufactured. The National Policy was followed

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[1]H.A. Innis, "Significant Factors in Canadian Economic History," Canadian Historical Review, December, 1937, p.380.

by an increase in woollen mills, boot and shoes factories, foundries, furniture establishments. Montreal was becoming an important manufacturing centre, especially of hardware, textiles, soap, drugs, paints, paper and tobacco. Factories were established where water power was available or where cheap supplies of coal could be brought in by railways.

The Prairies and British Columbia were advancing rapidly. In 1870 the province of Manitoba was formed out of the Hudson Bay lands. Gold and furs in British Columbia made of the Cariboo a trail to fortune. Canned salmon was exported even in the 70's. After the Free Land Homestead Act in 1872, settlers thronged to the West from the exhausted lands in Ontario. The excitement caused by gold discoveries at Kootenay, silver at Toad mountain, copper-gold in the Rossland district, silver, lead, and zinc in Slocan, was palled by the Klondike gold rush of 1898.

The last two decades of the nineteenth century were marked by a drift of Canadians to the United States but at the beginning of the new century the movement was reversed, and British and American immigrants began to fill up the prairies. By 1913 the increase in population and the increase in wheat output was lifting the West from its pioneer economy. New varieties of spring wheat, and in particular the Marquis, made it possible to extend the wheat growing area northward. Steamers plied with grain cargoes between the sister cities of Fort William and Port Arthur and Buffalo and Montreal. Since the upper St. Lawrence canals had been deepened to 14 feet and the ship channel to 25 feet, Montreal was better able to compete with New York for the grain trade.

Population was increasing rapidly, growing from 4.8 million to 7.2 million between 1891 and 1911. By 1910 Montreal had a population of nearly half a million, and Toronto of nearly 400,000. Canada was beginning to borrow American industrial technique. The Massey-Harris and the branch plant of the International Harvester Company had a large output of agricultural implements. Blast furnaces existed at Hamilton and Sault. Ste. Marie. Niagara became the centre of hydro-electric power. The increase in population in the West led to a greater demand for the manufactures of the East. The Niagara Peninsula became a belt of fruit trees. In Essex the tobacco and canning industries flourished.

Significant as an indication of the stage of the development of the Canadian economy was the entrance of mining as an important industry. Asbestos had been discovered at Thetford and East Broughton in Quebec. In 1883 nickel had been found at Sudbury but it remained unexploited until the development of methods for treating the ore and the discovery of uses of nickel as an alloy. By 1913 the International Nickel Company and the Mond Nickel Company were supplying 69% of the world nickel production. At Cobalt silver was discovered in 1904. Gold was found at Porcupine and later in the Kirkland lake district.

The iron and steel industry in the Maritimes and Ontario was increasing its production. In 1914, 90% of the steel rails consumed in Canada were domestic production. In Nova Scotia the industry had the advantage of coal and ore deposits and convenient means of transportation by rail and water. From the Annapolis valley apples went to Great Britain. Prince Edward Island developed fox farming. New Brunswick concentrated on potatoes and lumber. Even the old-time fisheries were undergoing a change. Large scale organization was displacing individual efforts. The dried cod industry declined and canned and live lobsters were becoming an important item of trade with the United States. As American exports to Great Britain declined, Canada gained a larger share of the British market in staples.

The depression after the War and the fall in immigration struck a blow at the Grand Trunk Pacific and the Canadian Northern railways. In 1922 they were consolidated together with the Intercolonial and the Grand Trunk as the Canadian National Railways. The dominance of the St. Lawrence, which for a century had accentuated Canada's dependence on Europe for manufactures and for markets for her raw materials, was lessened. It was cheaper for Alberta wheat and British Columbia lumber to reach Europe by way of the Panama Canal than by the expensive overland journey to the Atlantic.

During the depression, the drastic drop in prices, drought, soil-drifting brought sharp reverses to the farmers on the prairies. The importance of mining steadily increased.[1] Hydro-electric power plants at Quinze and Abitibi were important factors in the expansion of industry. The pulp and paper industry grew rapidly under the influence of large demand in the United States and the investment of American capital in Canada. After the reorganization during the depression, the principal establishments were the Abitibi Pulp and Paper Company in Ontario and the International Pulp and Paper Company in Quebec. The lumber industry of the Maritimes shifted towards pulp and paper. In Ontario, dairying, creameries, canned and dried milk were emphasized.

To-day we can look back on the evolution of Canada from a simple fishing economy to a land of fur-traders and lumbermen, to a world exporter of wheat and wood products, and finally to a

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[1]Exports of minerals increased 170% in 1937 over 1932. They totalled ¼ of all exports.

country where mining and manufacturing are opening a new stage in the development. With growing uncertainty in European markets and the resulting emphasis of American, the north-to-south attraction is dominating over the east-to-west development. As the St. Lawrence has been losing its influence as a centralizing force, the political, religious and cultural cleavages between the provinces have been increasing.

PART I

Past

Chapter 2

The Era of Colonial Restrictions

In the first half of the nineteenth century a new nation was emerging in the vast northern expanses of the American continent, for in those years the British North America colonies were discovering the strength and independence which lay in their heritage in the New World. Yet at the opening of the century Canada was still a closely integrated part of the British colonial system. The Corn Laws and the Navigation Acts subjected colonial commerce to strict mercantilistic regulations. Trade was confined almost entirely to Great Britain to which the colonies sent timber and potash, and from which they were required to buy manufactures. Practically the only trade between the British colonies and the United States was the trans-shipment of British goods through the Canadas. Canada was dependent upon one market, the Mother country, two months' voyage distant. The Provinces of Canada were accessible to the outside world only from April to November when the St. Lawrence navigation was open. The Maritimes, far apart from the inland provinces, had communication with them only by sea to New England ports and thence overland for the six months the St. Lawrence was ice-bound. Entry of colonial wheat into the British market was extremely uncertain under the Corn Laws by which the duty levied varied inversely to the price of wheat in Britain. When the price fell to a certain point, wheat was barred from entering the British market, yet at the same time, under the

Navigation laws, the wheat might not be sold elsewhere.[1]

On the other hand the system of colonial preference gave Canadian staple exports - timber, wheat and flour - an advantage over foreign products in the United Kingdom and in the British West Indies. Preferences, begun in 1808, freed Canadian timber from competition with the Baltic product in the British market. Timber became the chief export of Canada and in 1834 accounted for nearly 2/3 of the total exports to Great Britain.[2] Canadian white pine found a great demand in England for use in ship-building. The Ottawa valley and New Brunswick were the sites of the industry. Wheat and flour from Upper Canada enjoyed a similar differential duty in the British market.

The period of preferences marks also the development of the St. Lawrence as a highway not only for the Canadas but also for the American West which found this route the cheapest and most convenient. British manufactures came up the St. Lawrence to the western states. Trade of the West and as far east as Utica passed down the St. Lawrence to Montreal and Quebec. Transportation was cheaper by the Canadian waterway than by the overland route to

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1Since the duty was inverse to the price and the price fluctuated with the domestic yield, when harvests in England were good, little grain was imported, and only when harvests were poor, was colonial wheat permitted to enter.

Exports of wheat to Great Britain. (D.A.MacGibbon, The Canadian Grain Trade, p.9.)

1834	£.139,742	1840	£.494,507
37	15,331	46	696,078

Rates of duty in 1842 before Peel's Corn Law for that year was passed. (D.G.Barnes, The History of the English Corn Laws, p.250)

Price of wheat	Duty at each specified price.
73s.	1s.
70s.	10s. 8d.
60s.	26s. 8d.
50s.	36s. 8d.

2H.A. Innis and A.R.M. Lower (editors), Select Documents in Canadian Economic History, 1783-1885. pp274.

Albany for the western states and those bordering the lakes. The value of British goods annually exported to the United States by the lake route was estimated at £.60,000 sterling.[1] Even in 1797 trade between Upper Canada and the States through Kingston, Niagara, and Detroit was valued at about half a million dollars.[2] Montreal became the emporium for the trade of a large portion of the states of New York, Pennsylvania, Ohio, and Illinois. British manufactures and rum, West Indian sugar and coffee reached the United States through Canada.[3] Products from the bordering states, after passing through Canada, might be exported as of Canadian origin and so receive the advantage of the colonial preference.

A sharp blow was struck at this intransit trade through the St. Lawrence when the Erie Canal was opened in 1825. The stream of commerce was diverted from the great highway of the St. Lawrence to the Hudson. The shallowness of the Canadian canals - the hastily built Welland Canal, eight feet deep, and the Lachine only four - prevented laden vessels from passing from Lake Michigan through the St. Lawrence to the ocean.

In 1843, due to the agitation of Montreal merchants who faced a dwindling St. Lawrence trade, a special preference in the British market was granted Canadian wheat. A nominal duty of one shilling per quarter was placed on wheat and a proportionate duty on flour, including flour ground in Canada from American wheat.[4]

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[1] Canada and its Provinces, v.4, p.551.

[2] Ibid. p.552.

[3] H.A.Innis, op. cit., p.224. As yet duties were not imposed on imports into the United States via Canada. The duties levied at ocean ports varied from 25-50¢ per gal.on spirits,20-56¢ on wines,9¢ per lb.on sugar,5¢ per lb.on coffee,with none less than 10%.

[4] American wheat on entering Canada paid a duty of 3s. per bushel but the advantage of obtaining preference terms in the British market was considerable.

Supported by American grain passing through Canada, an extensive milling industry was built up, particularly by Montreal financiers.

Prior to 1835, there was little trade between the United States and Canada in home produce, since contiguous sections produced the same commodities. As population in the States increased and forests were cut down Canada became a source of food and wood supplies. In 1835, wheat, flour, provisions and lumber were being sent to the United States, while in Canada, American wares, such as cottons, satinets, iron tools, axes and farm implements, were replacing English goods. Smuggling became so common that even government officials indulged in contraband trade. Of the total tea consumed in Canada it was estimated that ½ to ¾ was smuggled from the United States.[1] Vermont timber, with no outlet except on the St. Lawrence and the Richelieu, was fraudulently conveyed on Canadian waters.

In 1846 the announcement of the repeal of the Corn Laws shocked the shipping and commercial interests of the St.Lawrence, which had prospered under the old preferential system. The preference enjoyed by wheat and grain dealers was abruptly destroyed. The thriving milling industry which had sprung up on the basis of the preference of 1843 to Canadian flour was deflated overnight. The lumbermen of St. John, Halifax, and Quebec, lost part of their advantage over Baltic wood in the British market. Montreal, the grain and flour port of the St. Lawrence, and Quebec, the centre of the lumber trade, addressed memorials to the British Secretary of State, protesting that exports from Canada would reach Europe

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[1] Canada and its Provinces, v.5, p.198. To comply with the law Canadian merchants were compelled to purchase it in New York, ship it over to Liverpool, and then back again to Canada.

through New York.[1] In view of the Bonding Act being considered by Congress to permit free export of Canadian products through the United States this fear was fully justified. The St. Lawrence canals on which so much British capital had been expended would be rendered useless.[2] To all the many petitions for restoring the preference, Gladstone, Secretary for the Colonies, replied that the new free trade policy of England would not be modified.[3]

The immediate consequence of the Repeal of the Corn Laws was a temporary depression of commerce. According to Lord Elgin, by 1849 property in Canadian towns had fallen 50% in value, $\frac{3}{4}$ of the commercial men were bankrupt, and a large proportion of Canadian exports were forced to turn to the American market, paying an import duty of 20% at the frontier. The revival of trade that came in the spring of 1850 proved that Canadian prosperity was not permanently injured but rather vested interests were temporarily dislocated. The mushroom growth of the milling industry was destroyed, but it was the urban interests, shipping, milling, and financial, which were hurt and not the farmer. The lumber trade again prospered after the depressing effect of the railway panic in Great Britain in 1846. Canadian white pine met with no serious competition from other countries.

As Montreal had feared, the Repeal of the Corn Laws, together

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[1] Between 1843 and 1846 much of the grain exported from Canada had originated in Ohio and Illinois.

[2] On this point, Lord Cathcart, the Canadian governor-general, urged Earl Grey to permit Americans to take produce down the St. Lawrence in their own vessels, thus suggesting as a means for benefiting Canadian canals the opening of the St. Lawrence which was later conceded to Americans as an important privilege in the Reciprocity bargain of 1854.

[3] Some form of compensation for lost preferences was given in the British Possessions Act of 1846 by which the British North American colonies were given power to repeal or reduce any duties imposed by former acts. Canada thus obtained the right to determine her own trade and tariff policy. The Navigation Laws restricting British trade to British vessels were repealed in 1849.

with the American Bonding Act of 1846, stimulated trade of the colonies with the United States. In 1848, of three million dollars of exports from the provinces of Canada to the United States, $250,000 were exported to the States for reshipment to Great Britain under the Bonding Act.[1] Between 1840 and 1849, imports from the United States increased from $6million to $8 million while imports from Great Britain declined from $15million to $11 million.[2]

Canada, forced into open competition with the world in the British market, began to look for an alternative. Various movements advocating new trade policies arose. A free trade league was organized in Montreal, the centre of Canadian manufacturing and finance. In the same city a movement for annexation with the United States developed. As conditions on the St. Lawrence grew steadily worse after 1846, sentiment in favor of union became more common. In 1849 the movement culminated in the publication of the Annexation Manifesto at Montreal.[3] The revival of 1850 decisively defeated the Manifesto. The movement had an important consequence in that it led to the conviction that the opening of the American market was vital to Canada.

As soon as repeal had been announced, the idea of reciprocal trade with the United States was brought forward. In May 1846, W.H. Merritt,[4] proposed that the British government open negotiations with Washington for an agreement for reciprocity in natural

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[1] Commerce of British North America, 1829 to 1851. Ex. Doc., No.23. 31st Congress, 2d Session. p.34.

[2] See Table I in appendix.

[3] The Manifesto was signed by over a thousand Montrealers, many of them prominent citizens, but the general public did not take part.

[4] The St. Catharines miller who had been the driving force in the construction of the first Welland Canal.

and agricultural products. It was agreed by officials of both countries that the proposed treaty should be secured by concurrent legislation of Canada and the United States.

In Canada the advantages of reciprocity were many. For the whole country, it meant the opening of a market of 33 millions to the products of the colonial population of 2½ millions. The movement originated in Canada West where the grain-growers looked enviously at the higher prices of wheat in the United States but were barred from the market by a 25¢ per bushel duty on wheat imports. In New Brunswick a combination of the depression in the lumber trade after 1846 and a failure of the grain and potato crops in 1847 led the province to support reciprocity at first. The lumbermen looked for free access to the American market. The ship-builders hoped for the right to register colonial-built vessels in the United States. The farmers wanted a share in the adjacent market of Maine and New England. In Nova Scotia, likewise, the movement was received with favor in the beginning. By 1850 Upper and Lower Canada, New Brunswick, Nova Scotia, and Prince Edward Island had passed bills to establish reciprocal free admission of certain natural products, whenever similar legislation might pass the American Congress. In Nova Socita, where the strongest opposition later arose, until 1851, the government was so eager for reciprocity that it was willing to concede fishery rights in addition to free entry of natural products.

As proof of their willingness for reciprocity, the United Provinces in 1847 passed a tariff act admitting American manufactures on the same terms as British manufactures, by reducing duties on American imports from 12½% to 7½%, and raising the duty on British manufactures from 5½% to 7½%.

For six years, from 1848 to 1854, negotiations in Washington were unsuccessful.[1] The United States regarded trade with Canada indifferently since the market offered by Canada seemed too small to benefit the American producer. However, Canadian-American trade continued to increase. Lumber, wheat, flour, vegetables, ashes, wool and eggs were exported to the United States, and tobacco, sugar, molasses, pork, corn, coal, salt and manufactures were bought in return.

In 1850 a new weight was added to the Canadian concessions - the opening of the navigation of the St. Lawrence to Americans. The treaty assumed a new importance to New York and the grain shippers of the western states, but it met with a stubbornly adverse vote in the Senate. In 1853 the old question of the rights of Americans in the British North American fisheries came to the fore. Great Britain, to enforce its interpretation of the Convention of 1818 which confined New England fishermen to a three mile limit from the coast-line of the colonies, sent cruisers to the Maritime fishing grounds.[2] The possibility of war brought the question for the first time to the serious attention of the United States. The settlement of the fisheries dispute became the propelling force for the completion of the treaty.

The value to the United States of reciprocity was sectional rather than national as in Canada. Advantage could be obtained only by adjoining northern states. New England manufacturers

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[1] The Bill for Reciprocity was first accepted by the House in 1848 but was refused in the Senate.

[2] British interpretation measured the three mile limit from the headlands at the entrance of the bays. The United States claimed the right to fish in any of the bays along the coast outside the three mile limit of the shore. The prohibition of inshore fishing struck a blow at the large mackerel industry built up by New England fishermen.

would gain a supply of coal and raw materials from the nearby Maritimes. New York and the middle West hoped to benefit from the opening of the St. Lawrence to American shipping. Maine supported the measure on the inducement of the removal of the export duty on logs floated down the St. John. On the other hand the southern states opposed the measure not only because of political rancour against the North and the belief that reciprocity would lead to annexation and so increase the free soil of the North, but also because Virginia and Maryland wheat growers feared Canadian competition.

While the economic advantages of reciprocity were being stressed by farmers and merchants, Lord Elgin was urging the idea upon Earl Grey by arguing that only through this device would annexation be prevented. He added a different note to his persuasion by stating that prosperity would return to Canada only with freer trade between Canada and the United States. Reciprocity must thus be achieved before Canada could repay the debt involved in canal-building or assume part of the burden of her own defense.

In May 1854 Lord Elgin proceeded to Washington and in the midst of the festivities of a brilliant social season accomplished the final arrangements for the treaty. He persuaded the Southern Democrats that reciprocity would forestall annexation, while the Northerners were at the same time convinced that political union would result from the extension of trade between Canada and the United States. The South was further conciliated by the inclusion of such products as cotton, rice, tobacco and turpentine in the free list. Opposition in the Maritimes, and especially in Nova Scotia, to the opening of the fisheries was mollified by the energetic campaign of I.D. Andrews, the American confidential agent.

Thus by a combination of critical circumstances and diplomatic adroitness the treaty was finally negotiated and signed June 5 by Elgin and Marcy, the American Secretary of State. It was endorsed by the House of Representatives August 3, and by the Senate, August 4.

Chapter 3.

The Reciprocity Treaty of 1854.

The Reciprocity Treaty was a carefully planned document of compromise, presenting compensating privileges to pacify those who were opposed to some of its provisions.

The first article of the Treaty granted to Americans the liberty of inshore fishing, except for shell-fish, in the waters of British North America, without the restriction of any limit from the coast. This liberty applied only to sea fishing; the fisheries in the rivers, of which the shad and salmon were the most important, were reserved for British fishermen. Shell-fish were excluded from the privilege in order to avoid opposition from Maryland. Similar privileges were granted to British subjects in American waters. The Atlantic fisheries north of the 36th parallel were opened to British fishing.

The third article of the Treaty enumerated the commodities of reciprocal free trade. The interests of the Canadas were satisfied by the inclusion of grain, flour, animals, meats, fruits, vegetables, poultry, eggs, butter, cheese, wool, hides and furs.[1] The free entry of fish was included to appease the Maritimes for the opening of the fisheries. Free trade in coal was an additional inducement to Nova Scotia. Timber and lumber of all kinds were inserted to benefit the New Brunswick and Canadian lumbermen. The support of the South was rallied by the inclusion in the list of pitch, tar, turpentine, dried fruits, tobacco, rice and cotton.[2]

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[1] The schedule comprised nearly all natural products Canada had for sale, additional items being, breadstuffs, seeds, plants, shrubs, trees, tallow, lard, pelts and skins.

[2] Other articles enumerated included stone and marble unworked, metallic ores of all kinds, ashes, gypsum, grindstones, flax, hemp and tow.

Free navigation on the St. Lawrence and the canals between the Great Lakes was granted to Americans with corresponding rights to British subjects on Lake Michigan. The American government pledged itself to engage upon the state governments to secure for British subjects the use of state canals in equality with Americans. The liberty of floating timber down the St. John River without payment of an export duty was a compensation to Maine for the free entry of colonial timber.

The Treaty was to remain in force for ten years. At the end of this period it might be abrogated by either party giving one year's notice of intention to terminate the agreement.

The Treaty went into effect in Canada, October 18, 1854, when the Canadian government admitted the enumerated articles under special bonds which were to be payable only if the treaty were not in effect in the United States within six months. To provide for the period between the opening of the fisheries to American fishermen in the autumn of 1854 and the final ratification of the treaty by Congress in March, 1855, it was arranged that duties collected on goods imported from Canada to the United States between September and March were to be remitted.

The decade following the enactment of Reciprocity was one of remarkable development both in the British colonies and in the United States. For Canada particularly it was a period of bewildering prosperity. The increase in Canadian-American trade was tremendous in the first two years of the treaty. The total value of the trade grew from 19 million dollars in 1853 to 50 million dollars in 1856. The depression of 1857 temporarily curtailed the trade but a revival came in the early 'sixties. During the Civil War the export of manufactures to the colonies was curtailed by the war-time embargo on exports, but owing to the increase in the export of grain from the American Northwest via Canada to avoid capture by Southerners, the total trade remained at a high peak. In 1866 the imminence of abrogation caused a rush of Canadian goods across the border that brought the trade to a total of over 73 million dollars.

Yet an analysis of the factors entering into Canadian prosperity reveals so many forces acting and re-acting on each other that it is difficult to judge the extent of the direct influence of the treaty. Increase in population, expansion in wheat output, railway construction, the boom in the Maritime shipping industry, the Crimean and the Civil Wars, would have stimulated trade whether or not Reciprocity had been enacted. In 1851 Canada was already recovering from the epidemic of bankruptcies and the nadir of commerce which followed the Repeal of the Corn Laws.[1] The increase in trade after 1854 was part of a more general increase that was bringing prosperity to both countries even before the time or Reciprocity.

The population of the British North America rose from less than 2,300,000 in 1851 to nearly 3,200,000 in 1861. In the United States a movement of population westward to the Mississippi valley brought a greater number of consumers with in Canada's trade. The years between 1851 and 1861 also witnessed a rapid expansion of wheat acreage and wheat production in Upper Canada.[2] Manufacturing in the eastern States and grain and meat production in the Northwest was rapidly developing.

At the very beginning the outcome of Reciprocity was obscured since its enactment coincided with the outbreak of the

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[1] J.C.Hopkins, Canada:An Encyclopaedia, v.1, p.339. Total Canadian-American trade jumped from a value of 8 million dollars in 1849 to 15 million in 1851.

[2] D.A.MacGibbon, op.cit. p.16.

	1851-2	1860-1
Production of wheat in Upper Can.	12.7	24.6 (million bu)
Wheat Acreage in Upper Can.	798.3	1386.4 (thousand acres)

Crimean War which shut off a large grain supply - Russia - from the British market. The purchasing power of the colonies was increased by their trade with Europe where demand created high pr prices for foodstuffs. Accordingly Canada was better able to import American commodities.

In 1861 the American Civil War forced prices to a high level thus benefiting the Canadian farmer. Although the market of ten million consumers in the South was lost a ready market was found in the northern States. American exports to Europe were curtailed and Canadian trade expanded in that direction.[1] The decrease in the American fishing fleet and the concentration in the United States on the building of war vessels rather than merchantmen gave a favorable impetus to the fishing and shipping industry in the Lower Provinces. Nova Scotia gained as a base for the re-exportation of West Indian goods to the United States.[2]

Canadian prosperity was attributable in large measure to the extensive program of railway construction which had given an impetus to trade even before 1854.[3] In the United States the railway program was well launched in 1840, but until 1850 Canada occupied herself with canal improvements, believing the water route would remain superior to the land route.[4] The persistent diversion

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[1] D.A.MacGibbon, op.cit.,p.20.

	Before 1861	1861-65	1862
Shipments from Montreal (1000 bu.wheat)	500.0 (avg.)	4000.0 (avg.)	6500.8

[2] Masters, op.cit.,p.184.
Re-exportations to U.S. from N.S., 1865

Sugar	309.5	thousand dollars
Molasses	139.0	" "

[3] J.C.Hopkins, op.cit.,v.1 ,p.359.
Exports of construction material for the Grand Trunk and Great Western from the U.S. to Canada:-

1853	7.8 million dollars
54	17.3 million dollars

[4] H.A.Innis, op.cit. In 1850 there were 9000 mi.railway in U.S. but only 66 mi. in Canada, of which 55 mi. were in Lower Canada.
W.J.Donald, The Canadian Iron and Steel Industry, p.325.
Railway mileage in Canada:

1851	159	1868	2270
61	2146	69	2524

of traffic of the West and of Upper Canada through Oswego to Atlantic ports forced Canada to find a means of competing with her rival.[1] The failure of the negotiations for an intercolonial railway from Nova Scotia to Quebec turned Canada's attention to the development of external lines of railway. By 1854 the Northern Railway joined Toronto to Collingwood, so facilitating travel to the upper lakes. In 1854 the Great Western from Niagara to Windsor was completed and by 1860 was operating lines to Toronto and from Windsor through to Lake Michigan. The Grand Trunk, by the aid of government and municipal finances, was completed from Sarnia to Montreal in 1856. By 1860 the railway was extended to Portland, Maine, and eastward to Quebec and Riviere du Loup. In the Maritimes railway building concentrated on linking ports with the larger cities. Halifax was linked with the Bay of Fundy and St. John with the north of New Brunswick. Between 1853 and 1866, New Brunswick and Nova Scotia built 465 miles of railway.[2] Accordingly, by the time of the Reciprocity Treaty each of the provinces had easy contacts with the populous centres of the United States, the Maritimes by the time-honored ocean route, and the Canadas by the newly constructed land and water routes.

In these years connections were being built between Detroit and Chicago. Between 1850 and 1860 the total railway mileage in Canada and the northern states of New York, Pennsylvania, Ohio, Indiana, Michigan, Illinois and Wisconsin rose from 3,512 to 16,930.[3] Undoubtedly railway construction not only stimulated trade but in turn was stimulated by the increase in reciprocal trade.

1H.A.Innis, A History of the Canadian Pacific Railway, p.68.

Exported to and through	1850		1851	
	Flour 1000 lb.	Wheat 1000 bu.	Flour 1000 lb.	Wheat 1000 bu.
Oswego	260.9	1094.4	259.9	670.2
Montreal and Quebec	280.6	88.5	371.6	161.3

2Masters, op.cit., p.181.

3Ibid., p.180.

The same period saw a burst of activity in the construction of mills, factories, stores, houses, public buildings. Municipalities were building new civic buildings, waterworks, streets, roads, by the aid of the Municipal Loan Fund Act.

The expenditure of capital in these enterprises stimulated industry immensely. A large proportion of the capital employed in the Grand Trunk and the Great Western railways was English capital by means of which Canada purchased supplies of iron materials for constructionwwork from the United States.[1]

The trade that developed between Canada and the United States may appropriately be termed a trade of convenience. Products went to the market most naturally placed geographically and to which transportation facilities made access most convenient. Canada imported goods from one point and exported goods of a similar type at another point in the long boundary line. Since there were more means of communication between adjoining parts of Canada and the States than between parts of the same country, each country was encouraged not only to buy and sell in the other's markets but also to use the other's transportation lines for re-exportation to Europe. It was more convenient for the Maritimes to trade with New England and the eastern states than with the Canadas, while the Canadas had ample connection with the eastern states by the Montreal to Portland railway and with the central and western states through lines from Oswego, Ogdensburg, Buffalo, Chicago and Detroit, as well as by navigation on American canals.

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[1] J.C.Hopkins, op.cit.,p.340. On the Grand Trunk, $44,000,000 of British capital and $16,000,000 of local funds were expanded.

The principle of convenience is illustrated by most of the articles of Canadian-American trade. Grain and flour held foremost place among Canadian exports and in 1856 comprised over 2/3 of the total exports to the United States. Upper Canada grain was sent to the eastern states which in turn re-exported part of the supply to the Maritimes through Boston and Portland and part to the United Kingdom and the Continent from Atlantic ports. While Upper Canada was sending her fine quality wheat eastward, Lower Canada was importing cheap grain from Illinois and Wisconsin. Just as Canadian wheat made use of American channels for exportation to Europe, large quantities of grain from the western States were shipped from Chicago to Kingston and then on to Montreal. Other portions of the western grain were transported across western Upper Canada and reached the eastern States through Buffalo, Oswego, and Ogdensburg.

Maritime fish was exported to the United States and contributed to the supply of fish which the United States in turn exported to Upper Canada. Nova Scotia bituminous coal was in special demand in New England cities for use in forges, furnaces, gasworks, railways, and in Connecticut and Massachusetts for factories. It was more convenient for Upper Canada to get her coal from Pennsylvania and Ohio.

The Civil War stimulated the demand for all kinds of farm produce - oats, barley, wool, horses and cattle. In 1865 the North imported over $2,000,000 of oats and $5,000,000 of barley.

The chief reciprocity articles imported from the United States were, by value - grain,meat, flour, livestock, coal, fish and fish-oil, tallow, fruit, butter, cheese, firewood, hides, lard, plants, rice, timber and tobacco. The leading exports to the

United States from Canada were just the same type of articles - wheat, flour, corn, timber, agricultural produce, animals.[1]

Only a few articles in which there was an important trade were not common to the lists of both Canadian and American exports. From the central states large quantities of Indian corn were sent to Upper Canada for fattening pigs. The superiority of Canadian barley in beer-making and a large influx of German immigrants into the United States combined to bring a large increase in the export of barley southward. Leicester and Cotswold combing wools of a quality little produced in the United States were imported from Canada by American worsted manufacturers. The period of free entry of wool under Reciprocity marked the beginning of the growth of the American worsted industry. American mills demanded a far greater quantity of wool than the United States could supply.[1] At the same time Canada was importing 300,000 pounds clothing wool annually from the States.[2]

Canadian soft pine met an increased demand in the central States. A large part of the lumber from the Maritimes was sent to American ports for re-exportation to Great Britain. However, the Maritimes were disappointed in the small increase in their lumber trade with the United States. Canadian lumber going to New England met competition from lumber from the central and western States. Apart from fish, lumber and coal the Maritimes export-

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[1] E. Porritt, Sixty Years of Protection in Canada, p.126. Woollen mills in the United States were demanding over 2 million lb. wool yearly but the American production of wool for the manufacture of worsteds was only 140,000 lb. In Canada, 6 million lb. were produced every year.

[2] Ibid., p.123.

Exports to U.S. from Can. of:	1854 (In thousand $)	1865
Lumber	753	4887
Livestock	73	5503
Flour	1292	2970
Barley	55	4093
Fish & prods.	1004	2213
Coal (N.S.)	254	1223

ed only small quantities of vegetables to the United States. Their American imports consisted of grain, flour, meats, and tobacco.

The first year of reciprocity, 1855, was marked by an increase of over 70% in exports from Canada to the United States. The following year there was a further increase of 40% over the previous year. The average annual exports to the United States in the first five years of Reciprocity were valued at three times the average for the five years preceding Reciprocity. The percentage of Canadian goods in the total American import trade rose from 2.95% in 1854, to 5.86% in 1855, and to 13.9% in 1865.[1] In 1854 the articles which were given free entry in Reciprocity already formed 69% of the total Canadian exports to the United States. In 1856 Reciprocity articles formed 91% of Canadian exports.

The aggregate export trade with the United Kingdom showed little diminution for the increased demand created by the Crimean War balanced the diversion of Canadian trade to the States. Yet, as the exports to the United States took a larger portion of Canadian trade, the proportion of exports to the United Kingdom decreased. However, it must be noted that a large part of the increase in exports to the United States was attributable to the use by Canadians of the superior American transportation facilities for goods destined for Europe.

Imports from the States to Canada showed a less spectacular increase. Importations of railway and building materials had already in 1854 increased American imports to Canada to $24,000,000 from $12,000,000 in 1853. The rate of increase in imports was smaller than the rate of increase in exports to the United States.

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[1]United States Tariff Commission, Reciprocity and Commercial Treaties, 1919, p.81. Statistics used in this chapter were obtained mainly from the above, and from D.C.Masters, The Reciprocity Treaty of 1854.

By 1864 Canada was exporting more to the United States than she was buying from them. In the thirteen years of the Treaty the States exported altogether about $5,000,000 more to the colonies than she imported from them. The increase in Canadian imports from the States was at the expense of British imports but after the termination of the reciprocity arrangement imports from the United Kingdom regained their former share of Canadian trade. The figures for Canadian imports from the States, as well as those for exports to the States, were expanded by the increase in European imports to Canada via the United States.

While the Treaty accomplished a temporary settlement of the fisheries dispute, the concessions granted to American fishermen proved of little value in so far as the prosperity of the fisheries was concerned. The mackerel industry continued in the downward phase which had begun in 1852.[1] Prosperity in the cod fishery had commenced before the period of Reciprocity. Since American fishermen had gained access to the most important cod fishing grounds by the Convention of 1818, the Treaty concessions added little to privileges already obtained. As for the Canadian fishermen, hardly a British fishing vessel sailed to American waters, because of the superior Canadian resources.

Free navigation on the St.Lawrence was of negligible benefit to American shipping. Between 1855 and 1863 only 44 vessels from the States passed down the St. Lawrence.[3] Traffic continued to the Atlantic by way of the Erie Canal and American railways.[2] Higher freight rates to Liverpool from Montreal than from New York, higher

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[1]This decline was probably due to the greater opportunities to labor and capital which were offered in other industries.

[2]United States Tariff Commission, op.cit., pp77.

Movement of American wheat & flour	1856	1858	1860
Through the Erie Canal (million Bu.)	15.3	13.8	23.9
Down the St. Lawrence " "	1.2	1.9	1.8

[3] Masters, op.cit. p.212.

insurance rates on the St. Lawrence and the expense of towing and pilotage, combined to favor the American route.[1] The Welland Canal was used by Americans mainly for shipment between the western and eastern states. From the American West, goods passed through the Welland to the ports of Oswego and Ogdensburg. In 1856, 2/3 of the merchandies transported through the Welland was en route to or from American ports.[2] Canadian imports and exports via the St. Lawrence declined.[3] Imports to the United States via Canada amounted to only $21,500 in 1861.[4]

In 1859 Galt, the Minister of Finance, attempted to divert trade to the St. Lawrence by imposing differential tolls on the Welland and St. Lawrence canals, and providing drawbacks of 90-95% for American vessels continuing on through the Welland for Montreal. However, the trade of the St. Lawrence continued to decline and the amount of non-American goods passing through the United States in bond for Canada continued to increase. In 1860 Galt introduced a new method of assessing ad valorem duties,[5] charging the duty on the value of the article at its last place of purchase. His object was to strike at the bond trade in foreign produce through the United States to Canada. The re-export trade of the States did subsequently decrease but high war prices in the United States were a more potent factor in the reduction than Galt's policy.

During the Reciprocity period American trade became more attractive than trade between Canada and the Maritimes. After 1846

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[1] MacGibbon, op.cit.,p.18. In 1858, during the four weeks ending Oct.31, 670,000 bu. Canadian wheat were received at Oswego alone. From the opening of navigation to Oct.31, only 104,677 bu. Canadian wheat were received at Montreal.

[2] Masters, op.cit.,p.216.

[3] J.C.Hopkins,op.cit.,v.1,0.340.

		Canadian exports	- imports
By the St. Lawrence	1854	$12.5 million	-$21.2million
	55	7.0 "	- 11.5 "

[4] Masters, ibid.

[5] On such products as tea, coffee, sugar, molasses.

there had been a temporary development of intercolonial trade but when trade with the United States increased, trade between the British provinces again lapsed.[1] The greater part of trade between Canada and the Maritimes passed through Montreal to Portland and then by sea to Maritimesports.[2]

In Canada the Treaty was widely extolled by all the provinces. In the United States where geography, and later the Civil War, confined the advantages to the border states, discontent was bound to rise against a treaty so delicately forced by a dispute over fishing grounds. Accordingly, while farmers, lumbermen, and fishermen were rejoicing in Reciprocity many disturbing factors were tending to rock the serene balance of diplomatic contrivance.

In Canada the economic depression of 1857 with its sharp reduction of revenue[3] combined with the growing voice of protectionism in Upper Canada to urge the government to a new fiscal policy. By 1858 under the leadership of Isaac Buchanan of Hamilton, the Association for the Promotion of Canadian Industry successfully convinced the government, already persuaded by the necessity for increased revenue, that manufactures must be protected. Cayley, Inspector-General raised the tariff on manufactures to a general

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[1] Canada and its provinces, v. 5, p. 252. In 1866, 281,284 barrels flour were imported by the Maritimes from the U.S. and only 69,164 from Canada.
MacGibbon, op. cit., p. 9. In 1846, 35.2 thousand barrels flour were sent to the Maritimes from Canada while 310.1 thousand were sent from the U.S. In 1850, 140.9 thousand barrels were sent to the Maritimes from Canada while 214.9 thousand were sent from the U.S.

[2] Intercolonial trade was discouraged by both the barrier of distance and the tariff barrier imposed on trade between the provinces since 1848. Commodities affected by the tariff were animals, butter, grain, flour, fish, wood, timber, poultry, vegetables. A further objection lay in the fact that the Maritimes were required to make payment for goods from Canada in bills on Montreal which in this period were at a considerable premium.

[3] At the same time the government, in addition to the interest on the indirect public debt of over 7.5 million pounds (Masters, p. 114) was being obliged to support municipalities in their debts.

level of 20%, and as high as 25% on boots and shoes, clothing, leather and harnesses. Galt, his successor, in 1859 extended the policy of "incidental protection". Duties on a large number of manufactures were raised from 20% to 25%, the general rate remaining 20%.[1] American duties on most manufactures under the Act of 1846 were 30% until reduced to 24% by the Act of 1857.[2] The rates were ¼ higher than corresponding rates in the Canadian tariff.

Hostility to the Canadian measures was quickly aroused in the United States, particularly among Buffalo manufacturers, who claimed that American duties did not disturb the benefits expected from Reciprocity whereas the Canadian duties by so doing violated the 'spirit of the treaty'.[3] Galt's refunds on St.Lawrence traffic and his system of ad valorem duties further incited opposition to the Treaty among New York merchants, shippers, and manufacturers.[4]

Canada was not without arguments against the Treaty for the American government had made no attempt to secure admission of colonial shipping to state canals, and had for two years required consular certificates of origin on shipments to the United States.[5] In 1858 the United States included in dutiable imports flour manufactured in Canada from American wheat. However, attention was

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1J.C.Hopkins,op.cit.,v.1,p.289.

Duties	1855	1857	1859
Molasses	16%	11%	30%
Sugar (refined)	32	25	40
Boots, shoes, harness	12½	20	25
Cotton, silk, wool goods	12½	15	20
Iron goods	12½	15	20

2F.W.Taussig,op.cit.,p.115.

3Galt's policy was challenged by the Colonial Office, but in answer to the protest of Newcastle, Colonial Secretary, Galt decisively vindicated Canada's right to decide her own policy of taxation and asserted the tariff increase as a financial necessity.

4After the Galt tariff of 1859 the U.S. appointed two commissioners to investigate the operation of the treaty. The report of I.T.Hatch of Buffalo represented the arguments against the Treaty which were prevalent in northern New York, while the report of J.W.Taylor of St.Paul, embodies the sentiment against abrogation in the western states.

5At a fee of $2 each

concentrated on grievances of the United States since it was she who ultimately abrogated the Treaty.

The outbreak of the Civil War brought political animosity as well as economic factors, to jeopardize the Treaty. The resentment towards Great Britain because of her sympathy for the South became highly intensified by unfortunate events.[1] Incidents along the Canadian border and the Atlantic seaboard directed the resentment against the colonies.[2] Even before the Civil War events the Treaty was doomed. The Cayley and Galt tariffs were held up constantly as a violation of the treaty. A last minute attempt made by the British and Canadian governments to renew the agreement failed utterly. A resolution for abrogation of the Treaty passed the House and Senate, March 17, 1865. On March 17, 1866, Canadian-American commerce resumed its pre-Reciprocity relations.

Calamity had been predicted for Canada at the time of abrogation but the effect on trade was much moderated by the reopening of the Southern market and the period of reconstruction in the United States when Canadian goods were desired. The recovery of the American currency tended to disguise the improvements in trade after the war-time inflation. The demand for such Canadian staples as lumber, barley, wool, hides, sheep and horses was sustained. Interprovincial trade began to develop. The total trade dropped sharply in 1867 as compared with that of the immediately preceding years, but since the late years of the treaty witnessed an abnormal eleventh-hour rush of goods across the border, the sharpness of the

[1]Among these being the "Trent" affair, and the raids of the "Alabama" and the "Florida".

[2]Maritime blockade running, the "Chesapeake" affair, and Confederate incursions from the Canadian border were torches which were added to the already burning opposition to the treaty.

decline is evidently not to be measured by comparison with these years. Exports from the British North America provinces into the United States were in 1867 still higher than at any other period in Canadian-American history except the last three years of the treaty. After 1867 exports continued to increase. Imports from the United States, after a sharp drop in 1866 and 1867, began to climb steadily upwards again. The effects of abrogation were obscured by as many interacting influences as were the effects of the operation of the treaty. The proportion of Maritime lumber and fish exports to the United States diminished but total exports actually increased.[1]

As far as the United States was concerned the chief result of abrogation was to cut off from American transportation and shipping interests a large part of the business of re-exporting Canadian goods. The continuing demand for certain Canadian imports which were indispensable to American industry, such as barley and pine lumber,[2] burdened the American consumer with increased duties.

Although the increase in trade during Reciprocity was largely a result of the stimuli of the war periods and economic development in both countries, yet by promoting re-export trade and domestic consumption of mutual goods, the treaty was an important factor in the increase. In Canada much of the railway building and the expansion in agriculture and lumbering was a result of the increase in trade, as well as partly a cause of it.

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[1] S.A. Saunders, "The Reciprocity Treaty of 1854: A Regional Study", Can. J. of Econ. and Pol. Sci., v.2, 1936, p.49.

[2] These made up 1/3 of the total Canadian exports to the United States. U.S. Tariff Commission, op. cit., p.80.

Chapter 4.

The Era of the National Policy

The Canadian government had viewed the prospect of the abrogation of the treaty with apprehension. Reciprocal privileges in the American market had taken the place of the abolished preference in British markets. Excluded now from the American market would the annexationist movement be revived? In fact, this very foreboding quickened the movement which statesmen, industrialists, farmers, and Montreal financial and forwarding interests were already supporting, the movement for the confederation of the Maritimes and the United Provinces. The new argument was urged that the subsequent opening of the markets of all provinces to the industries of each would mitigate the shock of the withdrawal of Reciprocity. A prosperous foreign trade would be built up with greater ease by a country which combined the wheat fields of the Canadas, the coal mines and fisheries of the Maritimes, and the water transport of the St. Lawrence. The continuance of bonding privileges through the United States was still a matter for anxious speculation. Abolition of these privileges would deprive Canada of a winter route to the sea, unless she were willing to meet the American customs. An intercolonial railway was urged as an necessity in view of this fact. Already statesmen began to dream of the limitless possibilities for expansion in a "Dominion from sea to sea". The developing industrialists of Upper Canada and the financial and forwarding interests of Montreal saw more gain in union than in reciprocity with the United States. Opposition in the low tariff Maritimes[1] to "incidental protection" was overcome when, in 1866, the United Provinces adopted a general rate of 15% with only a few protective

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[1] Tariff in the Maritimes did not exceed 12½%, on a revenue basis.

duties on sugar, soap, illuminating oils. This level was maintained for a decade after the Maritimes and Canada were united in the Dominion of Canada. In the United States the average duty was 40%.

In the Dominion of Canada a new spirit of independence grew out of her achievements and necessities. The Canadian government began to look upon reciprocity with less anxiety. However, for the next 30 years intermittent overtures for reciprocity were made to Washington. Between 1866 and 1899, negotiations were advanced seven times - five direct to Washington, and two embodied in the tariff acts of 1870 and 1879.[1]

The Canadian tariff remained at the level adopted in 1866. Most of the reciprocity articles remained on the free list and certain raw materials used in railway construction, shipbuilding and manufacturing were added. An export duty was placed on pine, oak, spruce logs to encourage saw-milling.

In the United States the high war tariff which by 1864 had been raised to an average of 47% remained in force for over 20 years. It was finally regarded as a permanent policy rather than an emergency war legislation, and became the basis for further extension of protection. Duties of 40 to even 100% were advocated as a restraint of foreign trade.[2]

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[1] In 1869, Rose, the Canadian Minister of Finance, made a fruitless mission to Washington. His proposal for a new treaty was not even seriously considered, although it contained concessions to certain manufactures as well as natural products. Opposition to Reciprocity was still too strong in the United States.

[2] A 10% reduction was passed in 1872 but was restored after three years of depression.

American tariff - (Taussig,op.cit.,p.174.)

1846	30% - maximum
57	25% (lowest since 1815)
62	37.2% (Morrill tariff)
65	50.04% - average on all imports.

Canadian tariff:

1859	19%
65	22.3%

In Canada the Protectionist movement which had been initiated in the 'fifties made little headway for a time. Public attention was focused on confederation and reciprocity negotiations. However, even in 1870 Macdonald, first prime minister of the Dominion, attempted to bring into operation his policy of protection to home industry. Duties were not increased but new duties were placed on goods hitherto free - coal, flour, wheat, salt, meat. A duty of 50¢ a ton on coal was intended both to retaliate against the tariff of $1.25 Nova Scotia met at New England ports and to force Quebec, Montreal, and even Toronto and Hamilton to use Maritime coal instead of the Pennsylvania product. To compensate Ontario for such an inconvenience a duty of 25¢ per barrel on flour was intended to compel Nova Scotia to take Ontario grain. An offer of reciprocity was made to the United States in the tariff but this was duly ignored by Washington. So many complaints were made by Ontario manufacturers and gas companies against the coal duty and by Nova Scotia against the flour duty and by New Brunswick against both, that the tariff was abandoned in 1871.[1]

In 1871 during the negotiations of the Washington Treaty, between the United States and Great Britain, Macdonald proposed the renewal of the reciprocity agreement as a basis for the settlement of fishing and waterway rights. However the objection of the American commissioners prevented Canada from gaining a tariff rearrangement in this manner. It was agreed that in return for fishing rights the United States would admit fish and oil free. The treaty settled the question of bonding privileges by providing for transit of goods in bond free through either country. Use of national canals and waterways was to be reciprocal.

[1]The first direct preference to Britain since 1846 was shown by the provision that a duty of 5¢ per bushel on salt was not to apply to the import from Great Britain.

In 1873 the Mackenzie government was in power and unrestricted reciprocity was announced as a Liberal principle. George Brown was sent to Washington as a commissioner in 1874 and together with Thornton, British minister at Washington, drew up a draft treaty which met with the approval of Fish, the American Secretary of State. In spite of acceptance by Fish and the House, the Senate refused to ratify the treaty, although the concessions were wider than any later offered and included manufactures and implements.[1] A clause providing for free admission of the goods from Great Britain as well as from the United States, combined with anti-reciprocity sentiment, overthrew the plan in the Senate.

In Canada eagerness for reciprocity was waning while in the United States commercial men were advocating reciprocal trade. By 1876 protection was becoming prominent in Canadian politics, but until the return of the Conservatives to power in 1879 a policy of protection was not adopted by the government. In 1874 duties were raised from 15% to 17½% due to the needs of the government. Duties of 5-10% were also placed on certain partly manufactured goods but again these were revenue charges.

Until the middle 'seventies Canada and the United States basked in a glow of prosperity. Railway mileage in both countries doubled between 1868 and 1874.[2] The promise to the Maritimes at Confederation was fulfilled by the completion in 1876, after many

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[1] The draft treaty provided for reciprocal inshore fishing rights, free use of Canadian canals, freedom of vessels of both countries to the carrying trade of the St.Lawrence and Great Lakes, American registry of Canadian-built ships and Canadian registry of American ships. The free list included 77 classes of manufactures, 60 of natural products, 40 of agricultural implements and tools. Among the manufactures were boots, shoes, cottons, iron, wood and leather manufactures, steam engines, cars, machingry, paper and furniture.

[2] Canada and its Provinces, v.9, p.135.
W.J.Donald, op.cit., App.A.
Railway mileage in operation in Canada.

1868	2270	1872	2899
1870	2617	1874	4331

delays, of the IntercolonialRailway.[1] In the period up to 1873 manufacturing was making some development, especially in the industries of processing farm produce.[2] Although the high American tariff was affecting exports to the United States the total volume of trade was increasing. Imports from the United States continued to increase.

In the United States settlement steadily streamed toward the golden West, expanded by Canadians who, daunted by the rocky barriers to the north, drifted across the border to the more accessible and seemingly limitless free lands of the United States.[3] Feverish railway construction and rapid industrial development were followed by over-speculation. The crash came in 1873. A financial panic involving massive bank failures and industrial bankruptcies was followed by a severe business depression which drastically lowered prices.

In less highly industrialized Canada the depression was less severe and the price drop less grave. Imports from the United States were thus stimulated though in the same period, imports from all countries were reduced. Small manufacturers were soon complaining that American and British goods were being dumped into Canada at sacrifice prices.[4] The revenues from customs duties were sharply curtailed.[5]

The stress of industrial conditions gave Macdonald the

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[1] The line stretched from Truro, which connected with Halifax, to Riviere du Loup where the Grand Trunk gave access to Quebec and Montreal. Construction of a transcontinental railway as the inducement to British Colombia to join the Dominion in 1871, was still making little progress.

[2] Flour-milligg, distilleries, breweries,tanneries, woollen and cotton manufacturing, and cheese factories were becoming important.

[3] Canada and its Provinces, v.9, p.114. Natives of B.N.A. resident in the U.S. increased from $\frac{1}{4}$ to $\frac{1}{2}$ millions, 1860 to 1870.

[4] The industries suffering most were those who had to face competition with American furniture and hardware, and English textiles.

[5] Makers of Canada, v.xviii, p.217. Customs from which half the revenue was derived, fell in the year 1876_77 from 15.4 million to 12.5 million dollars.

opportunity to advance his policy of protection to Canadian industry. With the United States market shut off by high tariff walls and the British market distant and already firmly established, the plan to preserve the home market for Canadians aroused great enthusiasm for the Conservative party. The prosperity of the United States under protection seemed an example of the gain to be expected from a high tariff. In Canada the brief progress of Canadian industry, in particular the boot and shoes, and agricultural implement industries, after the Galt tariff was cited in support of higher duties.[1] Those who still inclined to reciprocity were assured that retaliation by a protective tariff would force the United States to agree to a new trade treaty. The campaign cry of the 1878 election became 'reciprocity of trade or reciprocity of tariffs'. Besides its economic arguments the policy was to be a 'National Policy', an assertion of Canadian independence against American domination. With all these arguments to gain popularity it was inevitable that the National Policy would carry the election.

In 1879 the National Policy was put into operation and from then on protection to manufacturing became a definite government policy. In the tariff of 1879 duties on manufactures of 17½% were replaced by duties of 30-35%. On some commodities imported from the United States the new rates were from 20% to over 100% higher than the former ones. Importations of goods of a kind manufactured in Canada or expected to be in the future manufactured in the country were subjected to higher rates than goods Canada did not make herself.

The National Policy gave special protection to textiles, clothing, furniture, carriages, boots, shoes, rubber goods, sugar,

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[1]Canadian manufacturers claimed it was difficult for them to compete against Americans without protection. They affirmed an advantage in cheaper labor, lower taxation, and cheaper raw materials, but they lacked a large market which would permit specialization and large scale production.

and pig-iron.[1] A duty of $2 per ton on pig-iron and 12-17½% on primary steel products was intended to aid the development of the Canadian iron and steel industry. Other duties were imposed to retaliate for American duties as well as to protect Canadian industry. Duties of 50¢ per ton on American bituminous and anthracite coal provided both retaliatory measures against American tariffs and protection to Nova Scotia mines by giving them command of the Ontario market. Agriculture was protected by duties on wheat, barley, Indian corn, and livestock.

As in 1870 an offer of reciprocity was made to the United States. For 18 years this offer was repeated in subsequent tariff bills, each time meeting only with indifference on the part of the United States.

The tax of coal and pig-iron had a certain crippling effect on industry[2] but undoubtedly, by stimulating investment in protected industries, the National Policy encouraged the introduction of many manufactures which might otherwise have been delayed several decades. Progress was slow byt even 1895 Canada exported 7 million dollars worth of manufactures, mainly leather and cotton goods, liquor, woodpulp, and agricultural implements. In spite of the duty on coal, Ontario continued to obtain her supply from Pennsylvania. The protection to agriculture was of littleevalue since most of the protected products were produced in Canada in surplus quantities. The duty on agricultural implements was a

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[1] Canada and its Provinces, v.9, p.153. Canadian rates of duty, 1879.

Cotton	30%	Furniture and clocks	35%	Sugar	5-10%
Clothing	35%	Boots and shoes	25%	Silk	30%
Blankets	45%	Rubber goods	25%		
Carriages	30%	Pig-iron	$2 per ton		

American rates under the 1883 Tariff Act, (Taussig, op.cit., p.234)

Woollens	40% and 9¢ per yd.	Pig-iron	$6.72 per ton
Cottons	40%	Nickel	15¢ per lb.
Steel raw products	2-3¼¢ per lb.	Silk goods	50%

[2] The tariff on mining machinery was a serious burden until 1907 when certain machinery was put on the free list.

source of grievance to the farmers.

Protection alone could not make Canada a country of great industrial wealth for other factors besides American competition contributed to the slow development. For many years there was a lack of capital in Canada since the depreciation in the value of the Grand Trunk securities interrupted British investment. The Canadian home market was not large enough to support a large establishment. Another handicap was the distance between coal supplies and manufacturing centres.

By building her tariff wall to the height of the American barrier, Canada, dependent upon the production and export of raw materials, was bound to suffer more from the restraint of international trade than the United States, with its vast population, wide markets, enormous wealth and more developed resources. Imports from the United States were cut severely from 48 million dollars in 1879 to 28 million in 1880, but total imports fell sharply in this period also, although in a smaller proportion. British imports gained but only temporarily. By 1883 American imports were again assuming a larger percentage of Canadian purchases than British goods. Exports to the United States showed no striking change but continued to increase at a steadier but less rapid pace than imports.

The revival after 1879 did not rest on protection alone. The improvement after the depression was world-wide. The demand for Canadian lumber was being restored as American forests were rapidly depleted. Railway building, in the 'seventies the Intercolonial and in the 'eighties the Canadian Pacific Railway[1], was bringing connections between the Maritimes, Central Canada and the West. A new market for manufactures was being opened in the West. Railway

[1] The C.P.R. did not connect Lake Superior and Winnipeg until 1883 but connection with Manitoba was possible through St. Paul even in the 70's.

construction led to a demand for iron and steel manufactures, steel rails, bridge materials, car wheels. Expansion in agriculture brought a demand for implements, tools and fencing wire.

Throughout the Conservative regime there was no alteration of policy and only a few amendments. In 1883 in the interest of Canadian iron and steel a system of bounties on the production of pig-iron and steel was introduced.[1] The duties on coke and anthracite coal were repealed in 1885 and 1887 respectively. In 1894 reductions were made on agricultural implements, cottons and woollens.

In 1890 the American tarii rearrangement in the McKinley Bill, brought in more burdensome duties on agriculture.[2] Between 1890 and 1895 when the Wilson Bill superseded the McKinley Bill there was a marked decrease in the export to the United States from Canada of cattle, horses, sheep, poultry, and eggs.[3] The Bill reduced lumber duties, on condition that no export duty was imposed by Canada, since Canada was actually importing, mostly from Maine into New Brunswick more saw-logs than she was exporting to the States.[4]

In spite of the high tariff barrier the force of geographic factors irresistibly drew trade in Canadian-American channels

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[1] E. Porritt, Evolution of Canada, p.436. Bounties in 1883 were $1.50 per ton pig-iron, in 1894, $2. per ton. By 1905 bounties to iron and steel amounted to mearly $2½ million a year.

[2] F. W. Taussig, op. cit., p.251ff. McKinley Rates, 1890.

	Former rate	McKinley rate
Barley	10¢ bu.	30¢ bu.
Cattle	20%	$10 a head (or 30%)
Hay	$2. a ton	$4. a ton
Horses	20%	$30. a head + 30%.

[3] J. C. Hopkins, op. cit., v.1, p.375.

Exp. to U.S.	Yr. ending June 30, 1890.	Yr. ending June 30, 1895.
Cattle	104.6 thousand dollars	19.2 thousand dollars
Sheep	761.6	346.7
Horses	1887.9	510.8
Poultry	105.6	36.6
Eggs	1793.1	275.8

[4] Ibid.

Export of sawlogs to U.S. from Canada, 1885-1891, $3,300,000.

Import " " from U.S. to " " . $8,500,000.

rather than Anglo-Canadian. From 1890 American imports steadily displaced British goods.

The Wilson Tariff Bill of 1894 put raw forest products on the free list. Most of the agricultural duties were reduced back to the pre-McKinley level. The average rates were 20% and up. Three years lat r the Dingley Bill restored the heavy agriculture duties of the McKinley Bill and imposed even heavier lumber duties. Ontario retaliated with a provision that lumber cut on Ontario crown lands must be manufactured in Canada. Practically the only manufactures injured by this tariff were saw-milling and paper-making.

The revival which followed the adoption of protection was only of brief duration. The year 1884 brought another depression. Manufacturing suffered a severe setback between 1879 and 1882. Protection had been demanded in the 1873-79 depression. New that protection from American competition had failed as an effective remedy, agitation developed for a commercial union with the States.[1] The idea of a "Zollverein"[2] became popular with Ontario farmers but proved distasteful to commercial and manufacturing interests. The plan was molded bytthe Liberals into a plan for Unrestricted Reciprocity, freedom of trade but without common customs-houses and comm n rates against the world.[3]

In 1891 the Conservatives, who commited themselves to a renewal of the 1854 treaty, were returned to power. In compliance with election pledges commissioners went to Washington but it was purely a perfunctory gesture, since manufactures were not considered.

[1]The leadership of the movement came from the United States, the principal proponents being Erastus Wiman and S.J.Ritchie.

[2]The proposal involved absolute free trade, common excise rate and common tariff against the rest of the world, and the pooling of customs and excise revenue.

[3]Both plans were only the reflection of the ebb of the Canadian economy. Commercial union would have meant that the common tariff was framed at Washington and the threat of annexation would have been revived.

Chapter 5.

The New Century.

The end of the century witnessed the beginning of a new tempo in Canadian development. The disappointing exodus of young Canadians southward was gradually ceasing. The eastern cities were expanding rapidly and new cities were growing up in the West - Victoria, Vancouver and Winnipeg. Imports had doubled and exports trebled since Confederation. Industrial expansion was bringing remarkable activity in woollens and cottons, agricultural implements, and pulp and paper manufactures. Agriculture and ranching were creating a boom in the great North-West. Cheese and butter making was continuing a phenomenal growth. Mining, stimulated first by the gold rush of the 'fifties in British Columbia, was given a new impulse by the discovery of gold in the Kootenay region and the Klondike. American farmers, manufacturers, and financiers were beginning to realize the importance of their Canadian neighbors.

Canada was drawing away from reciprocity to a position of independence. Increasingly voices were calling upon Canadians to abandon their position of "hewers of wood and drawers of water" to American manufacturers. American tariffs were declared unfair, since they were twice as high as Canadian. The Canadian free list to the United States embodied 73% of the entire list, including farm and forest products, and manufactures. The American tariff listed only precious metals free. Canada was buying three times as much from the United States as she was selling to them. While the balance of trade with the United States was becoming more and more unfavorable to Canada, the balance with the United Kingdom was more and more favorable to Canada. The situation was described in brief as that of selling $3. worth to Great Britain and buying $1. from

Britain and $2. manufactures from the United States.

The period was a propitious one for the return to power of the Liberals. Although the time had now come for the Liberals to bring into operation the reciprocity proposals so strenuously advanced during the Conservative regime, the risk of dislocation of trade and industry, which a sweeping tariff change would involve, led them to fear to abandon the National Policy. Accordingly, the tariff revision of 1897 brought no substantial change in policy.[1] An important innovation was the introduction of a tariff preference on British imports. Welcomed by grain growers of the West and farmers of Ontario it served to quell the agitation for reciprocity which still arose, by offering an alternative to a reciprocal tariff. By Imperial Preference the Liberals were able to satisfy both the resentment over the McKinley and Dingley Bills, and the interest in Great Britain aroused by the Diamond Jubilee, as well as to carry out in some measure the traditional Liberal policy.

No separate preference rate was arranged but British goods were granted a rebate on the general rates of duty.[2] Until this time the advantage in trading in Canada was held by the United States. In 1896 over ½ of the imports from the States entered free of duty but only ¼ of British imports were on the free list. Duty paid on the total imports from the United States was nearly 10% less than from Great Britain.[3]

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[1]Duties on Indian corn, binder twine, barbed wire, pig-iron and refined sugar were abolished, but at the same time bounties were extended to the last two commodities.

[2]By a sliding scale system the preference in favor of British goods was to be 1/8 of the general rate in 1897, ¼ in 1898, 1/3 in 1900. At least 25% of the article must represent British labor. The general tariff was increased to safeguard Canadian factories from any loss due to the Preference. Only a few manufacturers, in particular the woollen manufacturers, claimed that they were injured by the British Preference.

[3]J.C.Hopkins, v.1,p.377.

In order to prevent the extension of the Preference to foreign nations, Great Britain demounced the remnant of her treaties which were binding to Canada, and thus completed Canadian autonomy in fiscal policy.[1]

In 1904 the tariff schedule was thoroughly revised.[2] A two-column tariff was set up with a rate for British imports somewhat lower than the general rate. The Preference was materially reduced from its 1/3 rebate in 1900. The long-standing complaint of the Canadian manufacturer of American dumping was met by an anti-dumping clause, by which a special duty equal to the difference between the fair market value and the selling price was imposed when dumping was established.

The results of the preference were disappointing to the British. The inexorable trend of trade towards the United States continued. Absolute trade with Great Britain showed an increase after 1897, especially in woollens, textiles, iron and steel products, furniture, glass and earthenware, but imports from the United States still increased at a greater rate than imports from Great Britain. Natural advantages dominated the trade and tariffs

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[1] Canada's independence in tariff legislation had been undisputed since the days when Galt assumed Canada's right to control her own fiscal policies. In 1877, in recognition of this right Great Britain had added a clause to her treaties by which adherence of self-governing colonies to treaties signed by the mother country with a foreign power was made optional. Canada was still bound by pre-1877 treaties, namely by those with Belgium and Germany, whereby Canadian tariff rearrangements would be extended to these countries. Germany was greatly aggrieved at Britain's denunciation of her treaty. She imposed her maximum rates on Canadian goods. Canada retaliated by a surtax of 33 1/3% against German imports. In 1910 the matter was settled when Germany granted Canada her minimum rates and Canada withdrew the surtax.

[2] The Canadian Manufacturers' Association was not long in urging further restriction of imports. A scheme was drawn up for a maximum tariff to be imposed against high tariff countries and a minimum tariff, the existing rate, for low tariff countries. Opposition of the Farmers' Organizations to increased duties against the U.S. was so persistent that the plan was abandoned.

made no substantial difference. The proportion of Canadian imports from Great Britain fell from 58% in 1871 to 26% in 1896, and to 24% in 1900, while American imports increased from 33% to 60% and 61%.

In 1907 a three-column tariff was established consisting of a British preferential rate varying with each article, an intermediate tariff for imports from countries making concessions to Dominion exports and a general tariff for all other countries. Preference was curtailed on some goods, cottons, woollens, leather, flax, hemp, jute, and increased in others, iron and steel manufactures, glassware, earthenware and chinaware. The rate of British advantage varied from 2½ to 15%. Imports from Great Britain were stimulated by the preference but in comparison imports from the United States continued to be more than double British imports and the percentage of goods imported from the United States steadily increased.

Chapter 6.

The 1911 Agreement.

While Canada was absorbed in the progress of preference and watching with intense though diverse interest Chamberlain's campaign in England for a reversal of free trade policy, events were leading Washington to reconsider the question of Canadian reciprocity.

In 1909 Congress passed the Payne-Aldrich Tariff Bill by which maximum and minimum rates were adopted. The maximum rate, higher than the minimum by 25% of the value of the commodity, was imposed against imports, both free and dutiable, from countries discriminating against American goods. Imperial Preference was not accounted "undue discrimination" but special treatment accorded France in 1907 was so declared by American authorities. Canada already facing an American tariff much higher than her own, was threatened with a still higher one unless concessions were granted the United States. Canada refused to give the United States similar treatment accorded to France. It was not the intention of the United States to cause anti-American feeling in Canada by imposing the maximum rates. American commissioners discussed the tariff problem with Fielding, Minister of Finance, at Ottawa and were soon examining the question of reciprocal trade. The result was that not only was Canada accorded the minimum rates on granting the United States her intermediate rates on a few articles,[1] but

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[1] Intermediate rates were granted to the United States on about 3% of imports. Canada later granted the same reductions to all countries so that the United States was still in reality subject to the entire general rate.
Tariff Series, no. 26, March, 1911. Dept. of Commerce and Labor, Washington. p. 23. The main reductions were:-

	British Pref.	General Old	General New
Dates and figs (100 lb.)	40¢	62½¢	55¢
Watch movements	10%	15%	12½%
Feathers	20%	30%	27½%
Nuts (per lb.)	1¾¢	3¢	2¢
Perfumes, n.o.p.	25%	35%	32½%

also it was agreed to continue the discussions of reciprocity in a formal negotiation.

In the United States circumstances had altered since Canada had offered reciprocity in 1854. With rapidly expanding industry and reckless exploitation of resources the United States was beginning to discover in Canada a market for manufactures and a source of raw material nedded by industry. Already Canada was the third best customer of the Republic. Investment of some $400 million in Canadian industry and the establishment of about 200 branch concerns in the Dominion drew attention to the northern neighbor. The mounting cost of living was reviving the popularity of the Democrats and the Republicans were anxious for the scheme as a means for recovering their lost prestige.

In Canada the censure of the West, engaged in export industry, was increasing against high tariffs. Although the general public remained apathetic in the beginning at least, Laurier realized that freer entry of primary products would win the support of the strong Grain Growers associations. A similar revolt against high tariffs was developing in the American West. In both countries reciprocity would satisfy the demand of agriculturalists.

In January, 1911, the negotiations begun at Ottawa, were resumed at Washington. The representatives of the two countries had soon drawn up an agreement for reciprocal trade between Canada and the States. No sweeping changes were proposed in the tariff on manufactures but a moderate measure of reciprocity was agreed to be both desirable and possible.

The Agreement proposed free admittance to both countries of many products of the farm, dairy, mine, and saw-mill.[1] Other

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[1]Including live animals, wheat, oats, barley, vegetables, hay, fresh and dried fruits, butter, cheese, milk, cream, eggs, seeds, fish, timber, sawn boards, railway ties, mica, asbestos, unfinished brass, rolled iron, coke, pulpwood, newsprint paper, and posts.

articles were to be favored by lower duties, meat,flour,coal, agricultural implements, waggons,motor vehicles,and other manufactures. Canadian aluminum, shingles,laths and other processed lumber and iron-ore were to be admitted to the United States at special rates, while cement, canned fruit,bituminous coal,condensed milk,fruit trees were to enter Canada from the United States at reduced duties. These changes were to be brought about by concurrent legislation at Washington.and Ottawa.

In the United States an unprecedented political entanglement resulted. The Republican president, President Taft, in urging support for the Agreement, faced a clear Democratic majority in the House and a split in the Republican majority in the Senate. The Democrats as a low tariff party supported the Agreement. The majority of the Republicans opposed it,not only staunch to their protectionist policy but also mindful of the fear of western farmers,New England lumbermen, and Atlantic fishermen, of Canadian competition. Financial and railway interests saw a measure of gain in reciprocity and were willing to advance the scheme. The importance of free entry of timber and lumber in permitting the dwindling American forests to be preserved was pointed out by economists.[1] Opposition was also coaxed by the argument that reciprocity would lead to annexation. The annexation utterances which brought favor to the Agreement in the United States were heard in Canada with quite different effect. President Taft's and Champ Clark's speeches,[2] and the loud support of reciprocity by J.J.Hill, the American railway magnate re-echoed in Canadian circles with an

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[1] F.W.Taussig, J.of Pol.Econ.,19:542,July,1911. With a greater available supply, ~~the rising~~ domestic price would be curbed and reckless exploitation would be lessened.

[2] Taft: "Canada is at the parting of the ways."
Clark:"I hope to see the day when the American flag will float over every square foot of the British North American possessions."

increasing force which was further intensified by indiscreet voices in the Hearst papers.

In Canada the political issue dominated. The public was stirred from its indifference only when the loyalty cry was raised. There was no unanimity even in the party ranks.[1] Manufacturing, banking, and railway interests became fearful the Agreement was but the thin edge of the wedge opening to American competition.[2] Robert Borden declared that the railways and canals on which vast sums had been expended would be rendered useless. The Canadian Manufacturers Association deprecated the Agreement, claiming that the reductions would still leave the American tariff at an average rate of 29.7% against the average Canadian rate of 16%. The early exploitation of American forests was pointed out as a warning of the wastage of Canadian resources which would result from reciprocal trade. By tying up her food supply with the United States Canada would discourage British investment. Interprovincial trade would be ruined since the West would look to Chicago and St.Paul rather than to Toronto and Montreal.

The main Conservative argument was that by widening the channels of trade to the South, Canada would become merely a political appendage of the United States. Observing the rise of Democratic influence in the United States they were inclined to believe that the States would lower the tariff to suit its own purposes.

In Quebec a campaign against the French-Catholic premier was led by the Nationalists under Henri Bourassa who attacked the

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[1]The Liberal revolt from acceptance of the Agreement was climaxed by the publication of a manifesto of 18 leading Liberals of Toronto, who protested that Empire ties would be weakened and annexation become a real menace.

[2]Sir William Van Horne of the C.P.R. declared that the Great Northern railway of J.J.Hill would dominate the Canadian North-West.

government mainly for its naval policy.[1]

To the farmers of the East and West, with a few exceptions among Niagara and British Columbia fruit-growers, reciprocity appeared as a key to wider markets. The Grain Growers associations of Manitoba and Saskatchewan and the United Farmers of Alberta led the pro-reciprocity movement. While opponents of the Agreement concentrated on the political issue the supporters evaluated the economic advantage of an open American market.

In the election, the political appeal to loyalty carried most weight and the treaty and its economic aspects were defeated. In fact, many circumstances influenced Canada to reject the agreement which for half a century she had sought from the United States. Industrial development, the openigg of the West, growth of population, expansion of trade, had brought Canada the double boon of prosperity and confidence in her own destiny. She looked back to past American rebuffs in resentment. Since Canada was developing trade with other foreign markets - France, Germany and the British Empire, the United States market was not as vital to her as in 1854. Canada was buying more and more from the United States but it was Great Britain which was taking the larger portion of her exports. The movement for closer trade relations with the United Kingdom was meeting wide favor, especially since there was the possibility of a return of the preference on Canadian goods in British markets.[2] Protection had now developed to a strength which made it both possible and necessary to oppose any freer trade arrangements. With tariff bars down it was felt that American goods would flood the market and ruin the small Canadian manufacturer. After spend-

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[1]One of the issues was the establishment of a Canadian navy. Bourassa claimed Laurier was thereby submitting to old-world Imperialism.

[2]If Great Britain adopted a protectionist policy, it would be possible for her to grant Canada differential rates.

ing hundreds of millions of dollars on railway and canal systems to establish an east-to-west traffic, Canada was reluctant to see trade diverted to a north-to-south direction by any measure opening the trade channels between Canada and the United States. Canadians were inclined to demand that the United States lower her higher tariff first if she wished to negotiate for reciprocal trade.[1]

The Agreement remained on American statute books for many years but the only part of the pact which came into operation was the reduction of duty on pulpwood and the free entry of newsprint which the United States, in view of her own requirements, established by the Tariff Act of 1911.

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[1]Skelton, "Reciprocity - Canadian Attitude", J. of Pol. Econ., Feb., 1911, p.88.

Average	Canadian tariff on dutiables	27%	
"	American " " "	42%	
"	Canadian tariff on dutiables and free goods		16%
"	American " " " " " "		24%

Chapter 7.

The War and the Post-war Periods.

The political gesture of the 1911 elections, which the Canadian people were led to think was necessary had actually little effect on the commercial relations of the two countries. Imports and exports continued at their rapid increase. In the United States the prospect of a tariff reduction had had a depressing effect on the iron and steel industry. Canadian furnaces contended that American pig-iron was being imported at slaughter prices and agitated for an increase in duties or re-establishment of bounties which had lapsed in 1911. However, it was felt that the industry which had received $16,000,000 in bounties was in danger of remaining a weakling under protection.

In October of 1913 President Wilson signed the Underwood Tariff. As had been anticipated in Canada when the Democrats rose to power, trade barriers were greatly lowered. Many products were placed on the free list - cattle,shiip,pigs,meats,milk,cream,wool, coal,agricultural implements,pig-iron, and boots and shoes. Reductions were made on others - wheat,pulpwood,paper,potatoes,horses. Countervailing duties on wheat and flour were to remain until Canada lowered her tariff.[1] Duties remained on many products which

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[1] J.G.Hopkins, Canadian Annual Review 1913, p.310.

	Former American duty	Underwood	Canadian duty
Cattle	$2.-$3.75 per head -27½%	free	$12.50 per head
Horses	$30. per head - 25%	10%	
Sheep	75¢ - $1.50 per head	free	25%
Wheat	25¢ per bu.	(Countervailing duty)10¢per bu.	12¢per bu.
Flour	25%	(Countervailing duty)45¢per bbl.	60¢per bbl.
Fruits	25¢ per bu.	10¢per 50 lb.	40¢per bbl.
Pig-iron	$2.50 per ton	free	$2.50 per ton
Milk	2¢ per gal.	free	17½%
Agric.implements	15-45%	free	17½-20%
Boots,shoes	10%	free	30%
Coal,bit.	45¢ per ton	free	53¢ per ton

would have been free under the 1911 Agreement.[1] The measure was received by Canadian farmers with enthusiasm. The question of reducing Canadian duties, especially on wheat and flour which were subject to countervailing duties, was widely discussed but no tariff change was made.[2]

The immediate result was a rush of cattle across the line in such quantities that the price of meat at home rose. Agricultural exports more than doubled in 1914 as compared with 1912. Exports of animals and their products to the United States increased from $9,900,000 in 1912 to $24,700,000 in 1914. The whole of this period from the beginning of the century until 1914 was one of growth of trade of both the United States and Canada. Between 1903 and 1913 the total imports into the United States increased 86%, while imports from Canada increased 120%. Exports to Canada increased 240% while total exports showed an increase of 79%. Canadian imports from the United States rose much more rapidly than exports to the States and in 1913 were three times as great as American purchases.

Meanwhile world events were fast coming to Canada's door. Wars in the Balkans, in Mexico, and in China were drawing off British investments. By 1913 the financial stringency was felt in Canada, as in all borrowing countries. The outbreak of the World War and the complete cessation of European investment in Canada caused a temporary dislocation of industry.[2] War orders brought

1The American duty was still higher on many manufactures and it was felt that it was only reasonable that the States reduce the tariff. In the West opinion swayed between those who urged the removal of the American duty of wheat by abolishing the Canadian duty, and those who claimed that exports to the States, being not for consumption but for mixture with inferior grades, would ultimately be shipped to Europe and force Canadian flour to compete with it.

2Over $200000000 of imports and of exports to belligerent countries were affected by the War.

prosperity to Canada and lifted the 1913 depression in the United States. The output of Canadian industry increased enormously. In 1914 Canada supplied the United States with 1/3 of its newsprint consumption.

The expansion of trade during the War, although unduly exaggerated by high prices, was still very great.[1] Exports to Britain increased immensely, exports to the States increasing at a smaller rate. Imports from Britain contracted from their share of 22% in 1912 to 8% in 1918. American imports at first decreased but by the end of the War were greater than ever before. By 1915 Canada's seemingly perennial unfavorable balance of trade had been converted into a favorable balance of over $240,000,000.

An important effect of the War was its diversion of investment in Canada. When investments from Great Britain ceased, Canada turned to the United States. In 1915 over $143,000,000 of American funds were invested in Canadian bonds, three times as many as were being sold in Great Britain. By 1919, $1272,000,000 were invested in Canada. British holdings declined from 24% before the War to 15% in 1923. New York replaced London as the centre of Canadian borrowings.

The hysterical boom of war years was followed by the inevitable reaction when once more peace came. The high war prices collapsed.[2] The United States suffered under business depression

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1 K. W. Taylor, Changes in the Volume of Canadian Trade, 1890-1921, p. 8 (Reprint from Quart. Publ. Amer. Stat. Assn, March, 1921, p. 537.)
Index numbers of physical volume of Canadian trade.

	Exports	Imports
1912	100	100
14	119.6	71.7
16	240.3	103.7
18	168.8	80.2

2 K. W. Taylor and H. Michell, Statistical Contributions to Canadian Economic History, p. 56.
Index numbers on 70 commodities. Base 1900

1918	257
20	288
22	182

and low agricultural prices. As anticipated in Canada, when the Republican party was again dominant in American politics, Congress passed the Emergency Tariff imposing heavy duties on agricultural produce, in the attempt to revive prices.[1] The prices affected $167,000,000 of goods which in 1921 were exported to the United States. The old question of reciprocity arose again in Canada, proponents claiming the tariff would not have been imposed if the 1911 Agreement had been accepted and opponents declaring the increase would have come anyway.

As far as the American farmers were concerned the tariff failed in its purpose to raise prices. United States farmers were injured by the lack of markets in poverty-striken Europe and by the tariff itself which made it difficult for Europe to trade with the United States, rather than by Canadian competition. Canadian farm products were practically excluded from the American market. Canadian exports to the United States affected by the tariff declined from $177,700,000 to $42,600,000. Wheat alone continued to be exported in large quantities for mixture.[2]

The process of the new permanent tariff in the United States was watched with great apprehension. Senator McCumber declared the farmer had benefited by the drop in Canadian imports. The new Fordney-McCumber Tariff, which became law in September, 1922, imposed the highest rates of any recent tariff on agricultural prodgce, livestock, woollen goods, and iron and steel products.

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[1] Canadian Annual Review, 1921, p.147.

	Former Tariff	Emergency Tariff
Wheat	free	35¢ per bu.
Flour	free	20%
Potatoes	free	25¢ per bu.
Cattle	10%	30%
Butter	2½¢ per lb.	6¢ per lb.
Cream	free	5¢ per gal.

[2] In this case the American consumer paid the duty.

The agricultural schedule was even higher than in the Emergency Act.[1] In addition, the President was given power to impose rates up to 50% higher if the duty was not considered adequate. Foreign goods might be revalued at Ameridan valuations.

The Canadian farmer was seriously injured. A large part of Canadian exports affected by the tariff turned to the British market. Exports of farm produce to the United States were in 1923 only 1/3 of the value in 1921. Cattle exports were sharply cut. Dairy farmers however found that the export of hay,cream,butter and milk continued to increase. In 1923, imports from the United States were 1/3 greater than exports to the United States.

Even in the United States voices were raised against the prohibitive tariff.[2] The November Congressional elections struck a heavy blow at the Republican power which had passed the tariff.

In Canada the easy optimism of the early part of the century was gone. The stock phrase of Laurier, "the twentieth century belongs to Canada", was seldom heard. Real progress was being made now. With increased agricultural output, development of water power, pulp and paper, Canada was becoming more industrialized. In

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[1] Canadian Annual Review, 1922, p.95.

	Fordney-McCumber	Underwood Tariff
Cattle	1½-2¢ per lb.	free
Milk	2½¢ per lb.	free
Cheese	5¢ per lb.	20%
Butter	8¢ per lb.	2½¢ per lb.
Eggs	8¢ per doz.	free
Horses	20%	10%
Wheat	30¢ per bu.	free
Flour	78¢ per cwt.	free
Wool	31¢ per lb.	free
Potatoes	50¢ per cwt.	free
Hay	$4. per ton	$2. per ton
Oats	15¢ per bu.	6¢ per bu.
Meats	¾ - 4¢ per lb.	free

[2] In 1923 the United States Tariff Commission reported that the tariff was costing the farmer more in his manufactured purchases than it was giving him on his sales.

1922, 15% of the exports were manufactures, in 1890, only 6%. Of exports to the United States more than ½ were wood and paper, while nearly ½ of the imports from the States consisted of iron and non-metallic metals, coal in particular. The United States remained Canada's largest customer and most important source of supply.

The principle of protection was left intact in the decade following the heightened tariff wall in the United States. Fielding made an offer of reciprocity to Washington in his budget speech but with no response from the United States. In 1923 the British Preference was reduced on items over 15% when imports arrived through Canadian ports. A few reductions of agricultural implements and automobiles were made in these years. The 1927 International Economic Conference estimated that the tariff level in 1925 was 23% in Canada and 37% in the United States.

PART II

Present

Chapter 8.

Trade Policy during the Depression

In the midst of wild prosperity the world was swept into the abyss of depression. The flow of trade was stemmed. Industry was paralyzed. In the United States agricultural prices were thrust to an alarming depth. Mid-West farmers clamored for a duty on cattle and a doubling of the duty on meat. Western lumbermen demanded a duty on shingles and cedar to protect American workers from oriental labor in British Columbia. Eastern dairy interests lobbied for protection against Canadian milk and cream. President Hoover proposed a higher tariff as a measure of 'farm relief'. Exclusion of Canadian products was once more grasped as the easy panacea for all ills. When the Hawley-Smoot Tariff was introduced in the House, prohibitive duties were imposed on almost all Canadian produce of farm, sea and forest.[1] Wide criticism was directed against the measure even before the Senate considered the bill. However, the Senate increased the rates on some goods even beyond the House scale but abolished the duty on shingles and sawn timber owing to opposition of Western farmers who objected to higher prices for building materials. The final draft contained the highest agricultural duties in history.[2] In Canada hostility to the measure

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[1]Drastic duties were levied on cattle,beef,hides,leather,sheep, wool,pork,vegetables,dairy products,hardwood lumber,shingles.

[2]Canadian Annual Review,1929-30,p.154.
Duties were increased 100% on cattle,meats, and maple sugar.
Duty on cream was increased from 20 to 56¢ per gal.
On potatoes the duty was increased from 50 to 75¢ per cwt.
Milk was subjected to a duty of 6½¢ per gal.
Ad valorem rates of 10% were levied on hides,leather,shoes,which formerly had been free.
On cattle the duty was 2½-3¢ per lb. and on soft lumber, $1.per thousand feet.

stimulated the sentiment for increased trade with the Empire.

The chief consequence of the Bill was to practically wipe out Canadian exports of cattle, milk, and cream, with disastrous results for the Prairie farmer and dairyman in eastern Quebec and New Brunswick. Hundreds of the market gardeners along the Great Lakes were ruined. An indirect effect was the initiation of a steady rise in exports of butter, eggs and cattle to the United Kingdom. By 1932 exports of Canadian agricultural products to the United States dropped to $5,000,000 from $40,000,000 in 1930.[1] The burden placed on Canadian trade on the eve of a depression was deeply resented. The forthcoming Imperial Economic Conference assumed a new significance.

This extravagantly high tariff together with the effects of the depression combined to induce the Canadian government to retaliate. It has been seen that since 1907 the tariff policy of Canada had been one of compromise, of special provisions for the advantage of particular industires, of drawbacks and low duty items for semi-manufactured material used in further manufacturing processes in Canada, and of other means to increase protection without radically raising the tariff rates. The following years witnessed a complete reversal of compromise tariff.

In May 1930 Dunning, Minister of Finance in the Liberal government, presented a budget which directly emphasized Empire trade. The margin of preference was increased, particularly in the iron and steel schedule and in a long list of machinery, householdware, electrical apparatus, and roadbuilding materials. The duty was decreased or abolished on 152 items in the iron and steel list. British manufacturers were given a concession in the heavier items, the Canadian manufacturers retaining their advantage in the lighter

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[1]See Table IIIa, Appendix.

forms of iron and steel products.[1] For the first time, countervailing duties with direct reference to the United States were levied on foodstuffs.[2] These duties were equivalent to duties imposed on Canadian goods when the foreign rates were higher than the Canadian rate on the same type of commodity. The general effect, by broadening the preference, was expected to be a shifting of the source of supply from the United States to Great Britain. Canadian industries insisted that they were exposed to British competition in the iron and steel schedule, but on the other hand, Canadian railways, ports and shipping activities hoped to gain if Canadian trade were directed more within Imperial channels. In response to complaints of American dumping by growers, the duty on fruits and vegetables was greatly increased but the increase was limited to the period when home produce was available. Fruits and vegetables from the Empire continued on the free list. The tariff changes covered $200,000,000 of Canadian imports. About 5% of the whole foreign trade of the United States was affected by the tariff.

When in September the Bennett government was returned to power a sweeping revision upward was made in the tariff schedule, the increases being directed chiefly against the United States. Iron and steel products, furniture, leather goods, textiles, coal and coke, fruits and vegetables were among the items given greater protection. A new feature was the introduction of a heavy tariff on American magazines and periodicals.[3] In order to encourage Canadian automobile assembling factories to develop into complete

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1Altogether 270 items on the Preference list were granted lower duties. On the British free list there were 589 items, though in 50 of these, imports from Britain were insignificant.

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Duties		General	Intermediate	Preference
Increased on	-	56 items	35 items	11 items
Decreased on	-	46	98	270

2Potatoes, soups, meat, butter, eggs, wheat, oats, rye.

3Of 15¢ per lb.

manufacturing plants, increases were imposed in the motor schedule.[1] A flat rate of 25% was levied on articles not specifically enumerated. In the interest of devastated areas in Western Canada, a 5¢ subsidy was offered for every bushel wheat exported.[2] Even at the time of the National Policy Canada had remained a country of moderate tariffs. The Bennett Tariffs stepped Canada up into the rank of the most highly protected countries in the world.

The most extreme provisions of the Bennett bills were not the high tariff but rather the measures adopted as a shield against the great instability of world trade. By ministerial decree arbitrary valuations of imports were setuup and imports were not only charged an ad valorem duty several times higher than the nominal duty, but also had to pay a dumping duty equal to the difference between the arbitrary valuation and the actual invoice price. Even the British Preference might be withdrawn by an order-in-council. The result was a shifting, unpredictable schedule of rates which was a greater barrier to trade than an equally high but stable tariff could ever be.

Such heightening of tariff schedules in both Canada and the United States intensified the malignant effect of depression upon trade. The volume of trade declined sharply. The enormous fall in value must be interpreted in view of deflated prices.

Since Canadian attention was becoming diverted from the American scene and turning to the British, the Imperial Conference at Ottawa in 1932 was watched with great expectations. In the 1930 Conference, Bennett had caused quite a flurry by offering a 10% preference to British goods,[3] but when it became evident that

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[1]Duties on automobiles were 30-40% in the general schedule.

[2]Saskatchewan in particular was facing disaster from drifting of the soil, largely due to over-intensive cultivation.

[3]1930, Mr. Bennett: "I offer to the Mother Country and to all parts of the Empire, a preference in the Canadian market ... based upon the additional a 10% increase in prevailing general tariffs ..."

the preference was to be granted by raising the rates on foreign imports rather than by lowering the British rate, the plan drifted to oblivion. However in 1932 when negotiations were completed, anxiety in Canada over the British Import Duty Act of 1932 and annoyance in Great Britain over Canadian 'crisis' restrictions had been removed. In the Ottawa Agreements, Empire products already free were guaranteed continuance of exemption from duty.[1] Great Britain also promised to maintain the existing margin of preference, an agreement which would in effect hamper any trade pact with a foreign power since general rates could not be easily reduced. Many commodities from foreign countries were subjected to increased rates of duty[2], or new rates on formerly free items.[3] One-half of imports from Canada were granted free entry. Quotas were placed on certain meats in order to regulate imports and raise domestic prices. Bacon and hams were to enter free from the Empire up to 2½ million cwts. Free entry was now given to 25% of the imports of the United Kingdom. The concessions on wheat and meats were of special importance to Canada. Foreign wheat paid a duty of 6¢ per bushel.

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[1] The Ottawa Agreements were only possible when Great Britain definitely abandoned her traditional policy of free trade. Not until after the War, in the face of rapidly advancing tariffs in the rest of the world, did Great Britain resort to a policy of protection. Even up to 1930 only 12% of English imports were dutiable. It is strange to consider that the period of depression which made Americans look askance at their long-established protectionism and turn to freer trade, in England should lead to building up of her low tariff wall against industrial and agricultural products. Empire products remained on the free list but for all imports from non-Empire countries Britain fixed a basic rate of 10%, increased by differential rates on each item, so that raw materials were given an average of 15%, manufactures, 20%, and luxuries, 25-30%, iron, steel, and automobiles, 33⅓%. In 1932 only 30% of imports remained free (in 1930, 83%.).(Foreign Affairs, Oct/37, p.103)

[2] Butter, cheese, eggs, condensed milk, fruits. Of these, in 1930 £.118million were imported into the U.K., £.68million from foreign countries.

[3] Wheat, copper, linseed.

Canadian concessions were confined mainly to specific changes in the tariff schedules. The preference rate was lowered on goods of which $37,000,000 had been exported in 1931-32 by the United Kingdom, and abolished on goods of which $8,000,000,had been exported. The foreign tariff was raised on goods of $8,800,000 were imported in 1931-32. The reductions were so slight in most cases that the level remained considerably above the pre-Bennett scale. Duties were still prohibitive on roughly ½ of British imports. The promise to remove trade restrictions in the form of arbitrary valuations was hoped to be effective. In accordance with this provision, the special excise tax of 3% on imports was halved in 1934 and abolished in 1935, as far as British goods were concerned. The use of the anti-dumping duty against so-called 'exchange dumping'[1] was discontinued after 1933. About ½ of the total exports to Canada from the United Kingdom were affected by the Agreements, the most important being woollen and cotton goods.[2]

If staunch Imperialists in Canada or in England thought to see Empire overseas trade diverted to Imperial channels as a result of the Ottawa agreements, they were doubtless disappointed

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[1]When the pound sterling was depreciated, the Canadian customs authorities fixed an artificial exchange rate for sterling and valuations of imports were estimated on this basis. The difference between the actual and theoretical selling price was paid by British exporters.

[2]Round Table, Dec.,1932,p.89. Of Canadian concessions on 223 items, the preference rate was reduced on 132, abolished on over 70, and on the remainder the tariff against foreign products was raised. Of British imports in 1931, 40% were granted lower duties, and $8million free entry.

at the negligible diversion that actually resulted.[1] Since the Agreements coincided with the lowest level of depression, succeeding months were bound to reflect the improvement in world-wide trade. Trade with Great Britain in imports and especially in exports registered a distinct gain but this gain was not derived at the expense of American trade. The increase of British imports between 1932 and 1935 was 12.0% and the increase in American imports, 11.8%. As far as the trade between Great Britain and the United States was concerned, British purchases from the States declined to a greater extent than those from the Empire[2] but the fall in American imports was not accompanied by a rise in corresponding items from the Empire, except in a small list. Of the most important imports from the United States, wheat, flour, cotton, tobacco and petroleum, all except petroleum moved in the same direction as imports from the Empire. In 1936 the same percentage was purchased from the States as in 1932, namely 11%. The sharp fall in food imports from the United States was due to drought and crop restriction although the 6¢ duty on wheat undoubtedly was a handicap.

Exports from Canada to the United Kingdom showed a greater revival than exports to the United States, an increase of 17.7% against an increase of 10.6%. It is necessary to recognize that other factors besides the Ottawa Agreements were basic in the greater improvement in trade with Great Britain. First, the depression was more ruinous to the United States than to Great Britain and while Britain was beginning to emerge from the depths, the States

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[1]Canadian Trade with the U.S., U.K. and the Empire.
(In millions of dollars. Percentage of total in brackets.)

	1929	1932	1935
Imports from United Kingdom	195(15.0%)	94(20.7%)	117(21.3%)
" " United States	894(68.8%)	264(58.2%)	312(56.7%)
" " rest of Empire	62(4.8%)	34(7.5%)	57(10.3%)
Exports to United Kingdom	290(24.6%)	178(36.1%)	304(41.6%)
" " United States	523(44.2%)	163(32.9%)	266(36.4%)
" " rest of Empire	106(8.8%)	39(7.9%)	74(10.2%)

[2]1930: G.B. imported from U.S. £.144million; from Empire, £.259.
34: G.B. " " U.S. £. 77 " " Empire [illegible]

was still stumbling in chaos. The export trade of Canada with the United States fell between 1929 and 1932 by more than $350,000,000 as against a fall in exports to Great Britain of $110,000,000. The drop in British imports in the same year was about 50% while the drop in American imports was 70%. Of significance is the difference between the items predominant in the import lists of American and British goods. Capital goods constitute Canada's chief purchases from the United States and consumers' goods from the United Kingdom. In depression, trade tends to shift from capital and construction goods to consumers' goods. Accordingly, the drop in imports from the United States was much more severe than the decline in British imports. British imports gained relatively but not absolutely.[1] It is hard to determine what had the greater effect on diverting Canadian trade relatively to Great Britain, whether the pernicious effect of the Hawley-Smoot Tariff or the British Preference gained at Ottawa. The monetary policy of the United States in raising the price of gold by nearly 69%, from $20.67 to $35. an ounce, issued in a change in the position of the Canadian dollar. The Canadian currency, which tended to fluctuate at a point midway between the magnetic force of the pound sterling and the American dollar, consequently appreciated in terms of the American dollar but depreciated in terms of the pound. Exportation to Great Britain was placed on favorable terms while exportation to the United States tended to be impeded. A further complication was introduced by the attempt in the United States to raise farm prices by means of the A.A.A., unexpectedly aided by the drought of 1934. The revival of business in the

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[1] The share of imports from the United Kingdom in total Canadian import trade rose from 15% in 1929 to 18% in 1932, although the value of the imports dropped 50%.

spring of 1933 combined with the restriction on agricultural production to counteract the impediment to export to the United States which resulted from the depreciation of the American currency.

Definitely, Imperial Preference did not hamper trade with the United States. It could hardly be called a step to reduction of tariffs since out of 223 items in which changes were made, the tariff was increased against foreign nations in 125. High duties remained against Empire as well as foreign goods.

In February, 1937, the Agreements were revised with modification of Great Britain's guarantee of the margin of preference and with greater reductions in duty on the part of Canada. Canadian concessions covered 179 items of which many commodities, manufactures of iron and steel, paper, textiles, leather and machinery are in direct competition with American goods in the Canadian market.

Chapter 9.

The Trade Agreement of 1936.

The Ottawa Agreements provided only a temporary respite. Primary producing areas in Canada, severely depressed for several years, were still hoping for freer trade with the United States, and were willing to offer concessions in early vegetables, subtropical fruits, and a few manufactures in return for an open market. Accordingly when Congress passed the Trade Agreements Act in 1934, empowering the President to reduce existing duties by as much as 50%, without putting any dutiable commodity on the free list, the Canadian government hastened to negotiate with Washington for a trade agreement. Negotiations were drawn out from the autumn of 1934 until November, 1935, for in spite of the support of President Roosevelt and the persistence of Cordell Hull, Secretary of States, certain obstacles existed to the plan at Washington. In the first place, the goods for which Canada wanted a freer market were the very goods in which the United States had commenced a program of controlled production. The danger of losing the agricultural vote was vitally significant to an administration whose New Deal had already forfeited the support of manufacturing interests. In addition, the time was drawing near when Prime Minister R.B. Bennett must test his popularity at the polls and Washington was adverse to dealing with a government which might be at the end of its tenure of office and to having the issue involved in an electoral campaign. Both Canadian parties,however, were committed to an American trade agreement. The final agreement would likely have differed very little even if the Conservatives had been re-elected. As it was, the new Prime Minister, Mackenzie King soon completed negotiations with President Roosevelt and the agreement was signed November 15, 1935 and went into operation January 1, 1936. The Agreement was to continue in force for three years and thereafter subject to six months' notice of abrogation by either country.

The Agreement provided for mutual most-favored-nation treatment[1] and accordingly Canada extended the whole of her intermediate tariff to the United States, duties being thus lowered on 767 items from 10 to 25%.[2] The most important items were manufactures such as textiles, clothing, machinery, railway and motor cars, electrical equipment, petroleum, leather, shoes, furniture and jewellery.

Special reductions below the intermediate rates were also conceded on over 80 items, including farm implements, industrial machinery, paper products, magazines and periodicals. As a compensation to American agriculture, oranges, grapefruit and other fruits and vegetables were also included.

Of considerable importance was Canada's agreement to abandon arbitrary valuations by amendment to the Customs Act and to limit special valuations on certain fruits and vegetables to 80% of the lowest advance in value made in accordance with the system of seasonal duties. Canada promised to give adequate notice of any change in schedules and rulings and to permit appeal to the Tariff Board against such orders. If the occasion arose when a severe foreign exchange situation would necessitate compensatory duties against American imports, Canada was to confer with the United States regarding the matter. If no satisfactory arrangement were agreed upon within thirty days Canada might

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1With the exception of special treatment accorded Cuba by the United States and of the British Preference in the Canadian schedule.

2 The United States in World Affairs 1936. Council on Foreign Relations, p.157.

abandon the whole agreement. The Canadian government undertook to propose to Parliament a measure permitting Canadian tourists to bring back from the United States free of duty purchases up to $100.

American concessions were those of most-favored-nation clause. However, since in most cases Canada was the chief source of supply of the goods on which concessions were granted, extension of the favors to other most-favored-nations had little effect on the imports from other countries. Rates were reduced on 59 items and free entry was guaranteed on 40 other items, including pulpwood, woodpulp, newsprint, nickel ore, asbestos, gypsum, agricultural implements, shingles, logs, and posts. The maximum reduction of 50% was made on 27 items of which lumber, timber, dairy cows, whiskey were the most important. Reductions from 20-49% were made on cattle, horses, poultry, cheese, cream, seed potatoes, hay, chemicals and fish. Rates were in general cut to about the 1929 level. The reduced rates on imports of cattle, seed potatoes, cream, Douglas fir and Western hemlock were to apply only to certain quotas.[1] In the case of cattle and cream the quotas were insignificant compared with total American consumption but the cattle quota represented about 90% of the 1929 export from Canada to the United States, while that of cream, only 63%.[2] The tariff was lowered on items that in 1929 amounted to a value of $80,000,000 and in 1934 to a value of $30,000,000.

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[1] Quart. J. Econ., Nov. 1937, C.R.Whittlesey, "Import Quotas in the United States", p.37-65.

	Quota	Production in U.S. 1934.
Douglas fir and Western hemlock	250,000,000bd.ft.	4,543,958,000
Red cedar shingles	1,048,262sq.ft.	3,365,000
Cattle: Dairy	20,000 head	
Under 175 lb.	51.933 "	10,402,000
Not under 700 lb.	155,799 "	14,528,000
Cream	1,500,000 gal.	649,188,000
Seed potatoes	750,000 bu.	10,459,865

[2] Round Table, March 1936, p.389. Canadian-American Trade Agreement.

The imports on which free entry was guaranteed were of greater importance in the trade between the two countries than those on which the duty was lowered. The inclusion of quotas in the trade agreement was necessary to allay the fears of the American farmer and lumberman that Canadian goods would flood the market. Shingles were left free but the United States reserved the right to apply a quota to them. A quota was decreed by the Executive on red cedar shingles during the first six months of 1937, limiting imports to 25% of imports during the preceding six months.

Although the quotas restricted the concessions, yet benefit was derived for western lumber and cattlem Maritime fish and farm produce, Ontario and Quebec mixed farming, and for certain minerals and chemicals. Quantities above the quota might still enter the States but at the former duty.

Objections to the Agreement were made in Canada on the ground that complications would result from the extension of the intermediate schedule to the United States since the general tariff had been drafted with direct reference to the United States and the intermediate with reference to Europe. However it was asserted that adjustments in the rates would be made as cases of inequality arose. Abolition of the duty on magazines was protested but this duty had become largely inoperative since Americans had turned to printing editions in Canada. Reduction on manufactures would not alter the volume of imports considerably since many of the specified manufactures were made in Canada by American branches.

In party ranks the main arguments were economic although the Conservatives reiterated the old cry of American domination. The Liberals eulogized the agreement as a blow at economic nationalism and predicted indefinite duration of the agreement. They claimed that Canada would benefit by lower prices, lower cost of living, and higher real wages, as a result of a wider market for exports and decreased protection.

The Ottawa Agreements were not impaired since any benefits to the United States not already conceded to the Empire would immediately apply to the Preferential tariff. However certain commodities would be affected. Free entry of oranges from the States during the first four months of the year would curtail purchases from far away Palestine and South Africa; lower duties on Canadian lumber would moderate the anxiety of Canada that the United Kingdom limit its Russian lumber imports; and lower rates on cream would alleviate the struggle against New Zealand butter.

In the United States the agreement was hailed with moderate enthusiasm by eastern newspapers, but the reaction in the West was much less favorable. Milk producers, livestock associations, lumbermen, and whiskey distillers[1] forsaw it as a threat to American industry. Governor Landon in the electoral campaign of 1936 denounced Roosevelt as having "sold the American farmer down the river." On the other hadn, sheep raisers rejoiced that Canada removed the duty on wool, Atlantic seaports and shippers hoped to benefit by the cancellation of 10% surcharge on imports transshipped to Canada through American ports, New England industrialists were pleased at the concessions on textiles and boots and shoes, Detroit and Grand Rapids automobile and furniture manufacturers and magazine publishers expected advantage from the reduced rates.

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[1]Distillers were faced with a shortage of aged whiskey at the repeal of prohibition and accordingly were in many cases not displeased at the reduction in the duty on Canadian whiskey. However complaints were made in the fear that the duty once reduced would not be restored when domestic supplies were available.

Chapter 10.

The Effects of the Trade Agreement.[1]

The Trade Agreement, while embodying a system of guarantees of most-favored-nation treatment rather than any considerable tariff reductions, reversed the policy of heightening customs barriers against the persistently increasing trade of Canada and the United States. The influence of the agreement may be best measured by consideration of its background. High tariffs, both in Canada and the United States, between 1929 and 1933, coupled with economic depression cut Canadian-American trade down to the lowest level since 1910. The money value of the trade declined by 2/3 of the 1928 boom level. The greatest relative drop was in American exports to Canada which fell from supplying 67.6% of total Canadian imports in 1928 to 54.2% in 1933. These exports to Canada comprised a smaller portion of the total American export trade, in addition, falling from 17.7% of total exports in 1928 to 12.3% in 1933. While the Ottawa agreements and the Bennett tariffs were factors in this decrease, an important cause is to be found in the nature of exports to Canada. The United States is the chief source of machinery, equipment, and structural materials. Since capital expenditures practically cease in depression, imports from the United States were severely reduced. On the other hand, Canadian exports to the United States maintained their relative share of the trade. In 1928, 11.8% of American imports were

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[1]Statistics used in this chapter were obtained from the following sources:- U.S.Dept.of States Analysis of Canadian-American Trade during the first Year under the Reciprocal Trade Agreement, May 28, 1937; Herbert Feis, "A Year of the Canadian Trade Agreement", *Foreign Affairs*, July, 1937; and *Dominion Bureau of Statistics*, Calendar Years 1935-1937.

derived from Canadian sources. In 1933 the share of Canadian goods in total American imports had actually risen to 13.1%, due in large measure to the growing weight of wood products - newsprint, woodpulp, and pulpwood - in Canadian trade. By 1935 the business recovery in Canada and the United States was reflected in trade expansion, exports to the States rising from $170,000,000 in 1933 to $266,000,000 in 1935. Total American exports increased in the same years from $1647,000,000 to $2243,000,000. The repeal of prohibition and drought conditions in the United States combined with economic improvement to influence purchases from Canada. Consequently, trade was already beginning to rise again before the Trade Agreement came into operation January 1, 1936.

In the years following 1935 trade recovery was pulsing through world-wide channels of trade. The flow of commerce between Canada and the United States continued to increase but with a significant movement from which it can be ascertained that the trade agreement had an independent effect on Canadian-American commerce. Exports to the United States of Canadian goods on which the duty was reduced increased 79.8% while exports of goods on which the duty was not reduced increased by only 12.3%. There was also a difference, though not so great, between the increase in duty-reduced imports to Canada and the increase in imports of goods not affected by the agreement, since the respective increases were 30.2% and 11%. Such a survey would clearly indicate the agreement had a direct effect on trade.

Following 1935 the increase in trade was greater between Canada and the United States than between either country with the rest of the world. Sales of Canadian produce to the States showed the most remarkable increase. The United States imported from Canada 32% more in 1936 than in 1935 while total American imports increased only 18.9%. Canadian merchandise was assuming a more prominent part in American imports, being 15.6% of the total in 1936 as against 14.0% in 1935. It is evident however that other factors besides tariff reductions were at work in stimulating exports to the United States. The increase in construction in the United States brought a demand for raw materials and the 1936 drought created temporary agricultural shortages. It has been found that on items of importation the increase in imports from Canada off goods on which the duty was reduced was far greater than the increase occuring in the other items. The increase of 66 million dollars in dutiable exports to the United States included 30 million dollars of goods on which the duty had been reduced. The largest single increase was in the export of whiskey, which showed an increase of over 100%, from $14,000000 in 1935 to $28,000,000 in 1936. Other commodities of prime importance included cattle, coftwood lumber, horses, cheddar cheese, fish, maple sugar, and seed potatoes. Although wheat unfit for human consumption was permitted to enter at the reduced rates granted feedstuffs, owing to drought in Canada in 1936 exports fell by nearly 50%. The drought also hampered the export of bran shorts and feed which registered only a small increase.

Dutiable goods on which no reduction was made also showed a large increase, 50%, or $39,000,000 by value. Special circumstances influenced this increase so it would be misleading to estimate the value of the agreement by comparing the rates of increase on reduced duty goods and those unchanged indduty. The export of wheat, on which the full duty of 42¢ per bushel remained, accounted for over $19,500,000 of the increase. The drought in the United States damaged hard spring and durum wheat crops and raised prices to an attractive premium for Canadian exporters. Other important increases in this group were in barley and rye, which together with wheat increased from $15,900,000 to $40,300,000. The value of corn exports to the United States increased by $840,000 but this increasedwas due to inflated prices rather than greater quantity, since the actual volume increased only 4%, or 170,000 bushels. Nickel alloys increased by $5,000,000.

Free goods showed a much smaller increase, 19%. Exports of goods on which free entry was bound increased 20% or $25,000,000, newsprint, woodpulp, and pulpwood accounting for $123,000,000 out of the $179,000,000 of exports in this class. The binding of free entry did not directly stimulate trade although it made long-run contracts possible by removing the fear of tariff change.

The Canadian producer of goods which competed with the production of American farmers did not gain at the expense of the latter. While increased exports were of great value to the Canadians, the total exports were insignificant when compared with the total American domestic production. The total exports of cattle in the classes in which the duty was reduced, were equivalent to only 1.2% of the federal-inspected slaughter. Beef cattle of 700 lb. or more were the chief group in the export. The total American import of these amounted to 1.4% of the total domestic production. Imports from Canada increased in much greater ratio than imports from all other countries. In the United States it was argued that Canadian importations were responsible for the decline in prices of cattle in the spring of 1936 but while imports might have had a minor temporary effect on price the chief factor was the heavy slaughtering of domestic cattle. In fact the bulk of Canadian imports were of medium grade cattle on which the price remained fairly stable. Exports of cream were of a volume to cause no alarm to the American dairyman. In 1936 they amounted to 1%

of the total milk production in the North Atlantic states where nearly all cream from Canada is marketed. The increase in exports of cream from a value of $1,000 to $65,000 benefited the Canadian without harming the American producer. The increase in export of cheddar cheese was very large but only 2.2% of American domestic production. Canadian imports increas d over 10 times but expanding consumption in the United States absorbed both the increased foreign import and the domestic cheese production. Prices of cheese rose and the American farmer enjoyed an incaeased income. Maple sugar was exported to the United States inlarge quantity, stimulated by a devreased production in the United States which coincided with increased Canadian production, as well as by the reduction of 2¢ per lb. in duty. The rise in potato prices in the United States, combined with the tariff reduction, gave an impetus to the export of Canadian seed potatoes. Even after the tariff reductions, lumber exports to the United States paid a large duty and an import excise tax. Imports of Douglas fir and western hemlock were limited to a quota equal to about 5% of American production. Only 60% of the quota was filled. Softwoods realized an increase in exports of $3,500,000. The export of hardwoods increased $900,000. Altogether, exports from Canada to the United States of Douglas fir and western hemlock amounted to less than 2.4% of domestic production, pine exports to less than 1%, and hardwoods 1.3%. Only in spruce were imports in high ratio to domestic production. Improvements in economic conditions were reflected in increased imports of birch, maple and beech for furniture and the construction of houses. Exports of red cedar shingles fell by more than a million dollars.

Newsprint, wood, pulpwood represented the largest single

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[1]Production in the United States had been decreasing since 1909 owing to dwindling resources.

import from Canada. Their increasing importation was indicative of the growing scarcity of American supplies. Benefits of the increase accrued to Americans whose capital was invested in Canadian plants as well as to Canadians.

The increase during 1937 was even greater than during 1936. The export of cattle in 1937 increased by $5,000,000 over 1936. The export of fish, which had increased over $1,000,000 in 1936 showed a further increase of over $500,000 in 1937. Cream exports tripled in 1937 over 1936. Milk exports doubled. Whiskey exports began to indicate that American supplies of aged whiskey were becoming available since the value of exports declined by nearly $2,000,000 in 1937 over 1936.

When imports to Canada from the United States are considered it is again seen that the agreement directly stimulated trade. In this case not only reduced duties but also lowering of arbitrary vaulations, favored the trade. Rising prices, business recovery and greater purchasing power in Canada also contributed to the increase. As with exports to the United States, exports to Canada of groups on which the duty was reduced or special valuations lowered, increased most, 30% against 11% for all commodities. The increases were less spectacular than in the case of exports to the United States but were considerable in the imports of fresh fruits and vegetables, newspapers and periodicals, automobiles and machinery, irnn and steel products and electrical apparatus. Iron and steel products accounted for ½ the total, reflecting the increased demand for capital goods as wellas the result of the reduction in duty. Products on which the existing treatment was bound, whether free or dutiable, increased by $11,000,000, mainly in raw cotton, furs, structural iron and steel, tractors, and lemons. Agricultural commodities on which the duty was reduced increased 32.5%, those on which the existing rate was bound increased 25.6%.

The modificatinn of Canadian seasonal valuations was the chief factor in the increase in importations of fresh fruits and vegetables, oranges, tomatoes, lettuce, of over $2,500,000. The removal of the Canadian duty during January through to the end of April on oranges brought an increase of $296,000 in these four months. These products showed a further increase in 1937 of over $1,500,000 as compared with 1936. Meat imports did not increase greatly owing to the high price in the United States though pork imports increased from $44,000 to $280,000 in 1936, and to $690,000 in 1937. The removal of the duty on American newspapers and periodicals was followed by a gain of $1,500,000 in American imports. Other paper products, advertising matter, wrapping paper, printed matter, showed large increases also. There was over $3,000,000 increase in the imports of automobiles and parts. There was a shift from the purchase of parts to the purchase of automobiles. In fact, several American assembly plants in Canada closed owing to the growth of automobile imports. The importation of passenger cars more than doubled in 1937 over 1936 while the importation of automobile parts increased nearly $10,000,000. Imports of machinery, textile, farm, and metal working machinery, registered large increases. In 1937 a further increase of over $15,000,000 occurred. Electrical apparatus was also in the class of increased imports.

Of the imports on which the existing treatment was bound, raw cotton and linters, tractors, undressed furs, lemons and rough lumber showed a large increase of altogether over $9,000,000.

There had been misgiving in the United States that the extension of the terms of the agreement according to the most-favored-nation clause would endanger the balance of production and importation in the United States but in fact the increase in importation from the world of goods not affected by the agreement showed a greater increase than those on which reductions were made. The terms of the agreement were so calculated that the commodities considered were those which were of main importance only in trade between Canada and the United States.

Chapter 11.

The 1938 Agreement.

Although unheralded by the public acclaim which greeted the Reciprocity Treaty back in 1854 or the hot opposition which the 1911 Agreement called forth, the Trade Agreement of 1936 marks a definite turning-point in Canadian-American trade policy. It is most significant that the present Agreement is the first in which the economic issue has overshadowed the political and as such, rests on a more solid foundation than previous policy. It is a measure which by steady development may lead to a permanent and rational trade understanding between Canada and the United States. Informal negotiations have already settled the concessions which each country is prepared to consider in a revised and extended agreement. If the words of Mackenzie King and the energy of Cordell Hull achieve their purpose, the future agreement will extend trade concessions considerably further than the 1936 Agreement.

On January 29, 1938, Cordell Hull issued formal notice of the intention of the United States to negotiate a new trade agreement with Canada. Domestic producers, importers and exporters were called upon to submit written briefs by March 12, on possible tariff reductions on a lengthy list of commodities, of which, fish, paper,grains, furs, meats, dairy products and metal manufactures were outstanding. Public hearings will open on April 4 at Washington. The practice of giving hearings to interested parties in the United States has offset to some extent the authority of the President, under the Trade Agreement Act of 1934, to negotiate trade treaties without the ratification of Congress. The process prolongs the negotiations for many weeks but enables business men who will be affected by the pact to voice their opinions.

The published list[1] indicates that the United States is to consider concessions on 193 items. All products of which Canada is the chief supplier are included. All these items will not likely be included in the final agreement. If concessions not listed come up for discussion, a supplementary list must be published, further briefs submitted to the Secretary and public hearings on these points must be held. A corresponding list will not be issued by Canada since Canada's method of changing the tariff is entirely different. Public hearings are not necessarily held to consider the concessions Canada may be prepared to grant. The changes are decided by the ministry and ratified by Parliament.

In all the trade pacts negotiated since 1934 with foreign countries, the United States has followed the policy of conceding tariff reductions only on porudcts of which the country, with which the agreement is arranged, is the main source of supply. Accordingly, only products which the United States imports chiefly from Canada are considered. For example,no extension in trade concessions will be made on butter,since the States imports more from New Zealand than from Canada. However,if the States arranges a trade treaty with New Zealand in which butter is given a concession, Canada will benefit because under the most-favored-nation clause Canada receives as low rates as the United States extends to any other country.

In the list under consideration, concessions are arranged for a wide variety of fish, animal products, meat, horses, cattle and dairy products. Almost all kinds of cereals, small fruits, roots, hay, straw and apples are included. Lower duties are to be considered on papers and books. The duties on timber and lumber products may be materially reduced. Metals and manufactures of metal are up for

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[1]Since 1935, Congress passed an amendment to the 1934 Trade Act requiring publication of the list of commodities being considered.

consideration. Lists of chemicals, oils, paints and earthenware are enumerated. Free entry of cattle, hogs and sheep for breeding purposes may be guaranteed by the new treaty. Free entry may be bound on 39 items already admitted free. In this group, 21 items were guaranteed free entry in 1935 and 18 new items are to be considered. Seventeen new types of agricultural implements are added to the 13 types already bound free.

Many of the products listed already enter free or with the maximum reduced tariff of 50%. Among the 25 items in Canadian export trade to the United States which are valued at over a million dollars annually, newsprint comprised $60,000,000 in 1937. Although already free, continuance of the guarantee of free entry may be valuable to Canada in the event of southern pine coming into the American newsprint market.[1] The inclusion of many other products is a matter of continuing concessions granted in 1935 rather than in extending them. Nickel, Cyanimid, abrasives, pulpwood and most chemical and mineral products are already free. Certain iron ores may be benefited by the full 50% reduction of duty. Acetic acid of which over $1,500,000 worth was exported in 1937 may be conceded a further cut in duty.

Canada is particularly interested in seeing her trade with the United States expanded in the direction which was the most profitable before the Hawley-Smoot tariff, namely in exports of natural and agricultural products, lumber, fish, cattle, grain, cheese, m meats, and cream. Reduction of the tariff on these commodities in

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[1]As yet the mills in southern United States have concentrated on the output of wrapping paper, cartons, and such products which do not come into competition with Canadian mills. A new threat to rayon pulp mills both in northern United States and Canada is the opening of a sulphate pulp mill in Springhill, La., which is to produce cellulose pulp for use in the manufacture of rayon.

1935 produced favorable results and it is hoped that further concessions will be made up to the maximum 50%. It is expected that reductions will be made in the duty on beef anc pork which were not covered in the last treaty. On certain goods the tariff is so excessive that even a 50% cut would not help the Canadian exporter. For example, on wheat the maximum reduction in the tariff of 42¢ per bushel would still leave an almost prohibitive duty. Concessions are possible on other grains such as feed, bran, and barley malt. If freer entry of dried fish, especially codfish, which were not considered in the 1935 treaty, is gained, the Maritime fishing industry, badly injured both by the American tariff and by political disturbances in Spain,Italy,and Mexico, might be revived. Lumber concessions would enable Pacific lumbermen to take advantage of the construction boom in the United States. An extension of the quota on shingles would also assist the recovery of the industry.

The concessions which Canada will grant in turn will be determined in part by the concessions which Great Britain concedes to the United States in the impending Anglo-American trade pact. The United States is anxious to obtain equal terms with Canada in the United Kingdom, in order to provide outlets for her surpluses in wheat,pork,fruit, and lumber. Some of her products would not compete with Canada, such as citrus fruits, soft wheat, and fat pork. In other commodities - lumber,bacon,canned goods,wheat,fish,and agricultural produce - Canada would be forced to face American competition in the British market and the sacrifice of her present preference would probably account for at least part of the price she pays for American concessions. Various interests in Canada must be considered. Automobile manufacturers in Canada strongly object to any suggestion that the motor duty be reduced. The Maritimes and

British Columbia oppose sharing the British Preference with the United States. Compensations must be provided for them if the United States is to obtain privileges on apples and lumber in the British market.

Canadian concessions may possibly include textiles, fruits and vegetables, and seeds. The textile probe would indicate that Mr. King does not consider that the Canadian industry requires the present protection on textiles. Accordingly, lower duties may be granted on woollens, cottons, silks, and artificial silk. Reductions on the seasonal tariff on fruits and vegetables are also possible. At present imports of American fruits and vegetables are hampered by the seasonal tariff which operates not only when Canadian products are avilable, but in some cases when Empire fruits and vegetables may be obtained. For part of the year there is a tariff even on oranges. American garden seeds and cut flowers may also be considered.

In some cases American demands may interfere with existing agreements with Empire countries. The preference on raisins from Australia which shuts out California raisins has been resented by Americans. If the United States demands free entry of corn, the Canadian treaty with South Africa will be involved.

Agitation has arisen for the abolition of the 3% import excise tax which Canada levies on all dutiable goods except those in the British Preference. When levied on foreign goods, the tax is equivalent to 4½ to 9%, since it is charged on the value of the commodity plus the amount of duty.

Chapter 12.

The Anglo-American Agreement and Canada.

The impending Anglo-American trade agreement has a special significance to Canada. There is not only the probability that the pact, between two countries which lead in world trade[1] and which until recently represented the opposing policies of free trade and protection[2], will be of importance in checking the growth of tariff barriers in all parts of the world; there is in addition the great importance to Canada of a trade treaty between the two chief markets for Canadian exports and sources of supply for Canadian imports. Canada is already bound to the United Kingdom by the spiritual ties of Empire and the economic ties of the Ottawa Agreements, and to the United States by social and geographic relations as well as by the Trade Agreement of 1936. Accordingly, the Anglo-American treaty will inevitably involve Anglo-Canadian and American-Canadian relations. The three-way trade between the three English speaking nations will be further emphasized. The negotiations are watched by Canada with keen attention to the effect on Canadian interests.

The havoc wrought by the depression that led the United States to initiate a program of commercial agreements[3], led England to reconsider her principle of free trade and to impose duties on

[1] Together the United States and the United Kingdom take 28% of the world's imports and sell 24% of the world's exports.

[2] Until 1931 only 3% of the total imports into the United Kingdom were subject to protective duties, and a further 9% to revenue charges. In the United States, on the contrary, the long standing protectionist policy was maintained and even intensified up until 1934. In 1935, the average rate on dutiable goods entering the United States was 42.9%. (Since 2/3 of American imports enter free the rate on all imports was only 17.5%.)

[3] Already 16 agreements have been negotiated, involving reductions on 1/3 of American agricultural exports, with countries which account for 38% of the total foreign trade of the United States.

¾ of her imports in 1932.[1] A better balance between British and American trade policies is necessary if the United States is to retain her share of the United Kingdom market. The resent slump in the United States has made conditions somewhat less favorable for the conclusion of an agreement, but there is still a good prospect of a tariff rearrangement.

In previous agreements concessions have been granted to the United States industry rather than to agriculture. In order to balance the program of tariff reduction, Mr. Hull must obtain concessions in foreign markets for American farm and forest produce. Great Britain is the sole remaining importer of agricultural products on a large scale, and in the forthcoming agreement freer entry of agricultural products will be sought by Americans. Of the five leading commodities imported by Great Britain from the United States - raw cotton, tobacco, machinery, mineral oils, and wheat - only wheat will probably be considered for tariff reduction. Raw cotton is already on the free list for imports from both foreign countries and the Empire into the British market. The Preference on machinery and tobacco has not injured the share of the United States in the trade. The high duty on petroleum applies to the Imperial product as well to the American and accordingly concessions will not likely be considered in its import. The United States is anxious for Britain to buy the products in which she expects surplus production in future years, wheat, bacon and hams, fruits and lumber. Exports of American lumber to Great Britain have declined sharply since Canadian timber was given a l large preference in the British market.[2] The market in the United

1The Import Duties Act of 1934 established a basic tariff of 10% on all imports excepting Empire products(for a provisional six months) and raw materials.

2Anglo-American Trade Relations, R.I.I.A. p.22. The American share in the British market for Pacific lumber fell from 74½% in 1929 to 6% in 1936.

Kingdom for bacon, hams, apples, cereals, condensed milk, barley, and fruits had been affected by the preference. Although it is extremely uncertain whether the fall in exports has been a result of the Ottawa Agreements or of the drought in the United States, the decline in the American share of the British market, following so closely the adoption of the new British tariff, has put a strong bargaining weapon into the hands of the English negotiators. Concessions are unlikely to be pressed on machinery since the advantage of the greater developed American industry has so far been able to overcome wide preferences to Empire machinery. In addition, the practice of establishing branch plants in Empire countries enables the American manufacturer to enjoy the British Preference. If reductions on machinery are granted the commodities affected might be automobiles, radios, machinery parts, domestic equipment and refrigerators.

The concessions to be granted to Great Britain will be more difficult to decide. The largest export to the United States - whiskey - already, through the extension of the reduction in the Canadian-American Trade Agreement of 1936, is benefited by the maximum reduction. British manufactures were severely affected by the prohibitive duties of the Hawley-Smoot Bill. It will be difficult to reconcile the American manufacturer to freer entry of British manufactures except in the lines of British specialities[1], of which there are some 60 items which are supplied to the United States chiefly by the United Kingdom. Some of these are not directly competitive with American industry, such as fine English yarns, luxury tweeds, high grade worsteds and woollens, jute manufactures and flax; others constitute only a small part of the

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[1] R.I.I.A., op.cit. Appendix II. Besides fine textiles, this list includes tin plate, ferromanganese, china, porcelain, earthenware, textile machinery, precious and semi-precious stones.

total American consumption, such as imports of inlaid linoleum, anthracite coal, pig-iron, tin plate, linen yarns, thread, and twine; imports of others into the United States are becoming insignificant, such as iron and steel, golf-balls, carpets, and wire. Where the duties are already exorbitant the 50% reduction would still leave a heavy burden. There is always the question whether the demand for the main British specialities which are of the luxury class is inelastic and, consequently, a reduction in the duty might be ineffective in increasing imports.

The critical point is the question of Canada permitting a larger share of the British market to go to the United States. The Ottawa Agreements guaranteed Canada free entry, until 1940, into the British market of lumber, bacon and apples, which are the commodities on which the United States is seeking concessions. It must be noted that the American demand for a modification of the Preference is not a challenge of Imperial Preference, nor does it constitute a demand for the same concessions as the Dominions enjoy in the British market. Yet any concessions to the United States which expand her share in the British market will be at the expense of the share of the Dominions, that is, unless Britain is able to increase her imports, which is most unlikely since the United Kingdom has entered upon a program of protection to agriculture. The Dominions, and in particular Canada and Australia, must be compensated for their loss in the British market by gaining concessions in the American market. On this point the opposition of the Canadian farmers, dependent on Preference, and of the protected American manufacturer must be overcome. In many cases there is little conflict between Canadian exports and American in the British market since the Canadian goods are often raw materials which the United States does not export. Concessions are possible on lumber since different kinds are exported from Canada and from the United States. Canada specializes in the quality of bacon which Britain buys. This quality is not produced in large quantities in the United States. In wheat the Canadian grade of hard wheat is also not produced in the States in surplus quantities. American wheat is not cheap enough for English millers nor strong enough to be used for mixing. The desire of the United States for concessions on apples and lumber meets with a violent refusal of Nova Scotia and British Columbia to share the British market. However, if the United States allowed more cream, cheese, butter and cattle to enter, and reduced rates on fruits, fish and potatoes from the Maritimes, there would be less objection to granting the United States privileges in the United Kingdom.

The political aspect of the agreement can not be ignored. With the international situation in increasing confusion, closer cooperation between Britain and the United States might be a factor in world peace. It is the belief of the American Secretary of State that "trade disarmament will lead to political appeasement." It is significant of the trend of Anglo-American affairs that the impending Anglo-American agreement will be the result of an offer of cooperation by the States, with Great Britain, for the first time since Versailles. In Canada it is likely that the Mackenzie government will modify the British concessions which were arranged under the Bennett government.

Chapter 13.

An Analysis of Canadian-American Trade.

A significant change has come to Canadian trade since the days at the beginning of the century when Canada was buying nearly three times as much from the United States as she was selling to her and was selling to the United Kingdom twice the amount disposed of in the American market. Today the United States is Canada's most valuable market and greatest source of supply. The United Kingdom has become the second, although a close second, customer for Canadian exports. In 1936-37 more than 40% of Canadian exports were absorbed by the United States. In fact the proportion of export trade with the United States has been maintained, with temporary deviations, at a percentage of total Canadian exports between 35 and 40% since Confederation. The constancy in the United States share of Canadian exports must not, however, obscure the enormous expansion which has taken place in the volume of the trade. In the standard year of 1927 the United States was buying 8 times the value of Canadian goods as in 1900 and over 15 times the value bought in 1870. During the depression the fall in Canadian exports was severe, the American share dropping to a drpression low of less than 1/3 the 1927 level. Recovery has brought American purchases back to a point 80% as high as in 1927. On the other hand, Great Britain's share in Canadian exports has fallen greatly since the beginning of the century when she was taking from 50 to 60%. In 1937 38% of Canadian exports found a market in the United Kingdom. The absolute value of goods sent to the United Kingdom has expanded greatly since the beginning of the century when it was only 1/5 of the 1927 export to Britain and since 1870 when exports to the United Kingdom were less than 1/20 of the 1927 value. The increase has however been at a less rapid pace than the American, and as Canada has been extending the areas of her external markets, Great Britain's share has fallen by a proportionately large amount. While the recovery in exports to the United States between 1927 and 1934 has been 97.7%, the revival in exports to Great Britain in the same period has been only 41.4%. The minature boom in the United States in 1936 and the first six months of 1937 have been factors in the more rapid revival of exports to the United States, as well as the influence of lessened tariff restrictions due to the Trade Agreement of 1936 and the drought in the States which increased the demand for Canadian products. The more recent slump has been reflected in greatly diminished exports during December, 1937 and the first months of 1938.

In substance it would appear that the United States and the United Kingdom have become equally valuable to Canada as export markets. Canada has become less dependent on the United Kingdom as a market for her goods. The share of Canadian goods in total American imports has increased from an average for the years between 1911 and 1914 of 7% to 15.6% in 1936.

The position of imports of American commodities has been becoming more and more impressive. The United States is by far the greatest source of supply. In spite of the immense depression drop due to the cessation of capital expenditure, American imports have retained nearly 60% of the Canadian import market, while Britain's share has fallen to 20% in recent years. The drop in American imports was nearly 75% between 1930 and 1933 while British imports fell by about 45% in the same interval. In fact since 1933 the United Kingdom has been suppling a larger percentage of Canadian imports than she has since 1914. Canada's trade relations with the two English speaking countries are vital to her. Together they supply Canada with 78% of her imports and provide markets for 80% of her exports.

For nearly a century Canada has become accustomed to almost consistently adverse balances ot trade with the United States, varying from a few million dollars to the colossal unfavorable balance of 1929 when the amount was nearly 400 million dollars or about 4/5 of the exports from Canada to the United States. When considering the balance of trade it must be always kept in mind that any interpretation of the balance in terms of prosperity is fallacious. The statements may be little interpreted beyond the point of considering that an unfavorable balance with one country will necessitate an excess of exports to another. Most frequently any discrepancy between commodity imports and exports is counterbalanced by invisible items. During the past three fiscal years the tendency of the balance of trade with the United States has been reversed. In 1936-37 the surplus of exports amounted to over 50 milli n dollars. The slight decline in the favorable balance since 1935-36 is accounted for by the fall in exports of non-monetary gold, as a result of the increased holdings of gold under earmark for foreign customers by the Bank of Canada.[1] In past years the export of gold[2] has been an important factor in the balance of trade.

The discrepancies existing between Canadian and American statistics of trade make it impossible to make any but approximate statements. Since Canada bases her customs valuations, f.o.b. at the point of origin of imports or exports, while the United States makes its valuations on a c.i.f. basis of value at the

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[1]Since 1936 gold has been held by the Bank rather than actually exported.

[2]Crude bullion is included in the merchandise account. Coins and bars of gold or silver are recorded separately.

point of entry into or export from the States. Canadian figures will vary from American by the amount of freight value included in American statistics. Large quantities of wheat are shipped overseas via the United States. If, as often happens, a portion is diverted to American consumption this amount appears in American figures but is omitted from the Canadian. The inclusion of crude non-monetary gold and silver bullion in Canadian trade statistics, contrary to the practice in the United States, results in further variation between the figures of the two countries.

The reduction of the commodity adverse balance from its average level of 225 million dollars since 1920 is an important factor in preventing Canada from restricting imports of commodities and capital from the United States. Until the event of depression the adverse balance was no burden upon the Canadian economy. During 1924 and until 1928 Canada was so prosperous that she even began exporting capital. By 1931 the adverse balance, although reduced to 107 million dollars, became a heavy weight, the more so since the flotation of capital issues was not permitted in New York. The adverse balance became one of the justifications for the Canadian tariff legislation restricting imports.

The invisible items in Canadian-American trade have tended to offset each other. Tourist traffic, interest payments and freight charges are the important items. The tourist trade is the largest single item to balance the balance sheet. It is an invisible export which helps to pay for goods imported and money borrowed from abroad. After the Great War, travelling, formerly the luxury of the wealthy class, came within reach of all. Canada was well provided with attractions, picturesque scenery, invigorating climate, and facilities for winter and summer sport, while common language, racial stock, tastes, and customs, as well as easy access, gave Canada a special interest for American tourists. The tourist trade between Canada and the United States has become greater than between any other two countries in the world. The expenditures of American tourists in Canada have become an important invisible export. Over 90% of the total tourist revenue is derived from American tourists. The depression cut both the number of tourists and the amount spent in Canada but since 1935 the trade has been again expanding. Expenditures by Canadian tourists in the United States, which are listed as one of the invisible imports, are ¼ of American expenditures in Canada.

The largest invisible item in the debit account are the payments of interest and dividends on the huge investments of American capital in Canada. In 1937 the amount invested in Canada by Americans totalled 3996 million dollars.[1] Canadians have invested in the United States 1017 million dollars on which interest and dividends are paid and constitute an invisible export. In this case the flow of paymentsfrom Canada is greater than the inflow from Canadian investments abroad.

Freight payments and receipts form the next largest invisible items. The importance of these in the Canadian balance of trade arises from the practice of valuating Canadian imports at the market value at the point of original shipment, and exports similarly are valued f.o.b. at the point of origin. Freight charges on imports from the point of original shipment to the Canadian border, not being included in the valuation, must be estimated as one of the invisible imports. Freight on exports from the place of origin to the boundary must be also taken into consideration. Imports as recorded are thus less than those estimated by the American c.i.f. valuation by the amount of

[1] Financial Post, Business Year Book, 1938. p.165.

freight paid to American railways and other means of transportation which carry imports to the boundary. Exports as recorded are undervalued by the amount of freight paid to Canadian railways and steamers carrying goods to the boundary. Since a large portion of Canadian imports originate in the United States, the largest item of freight payments is the railway cost on imports from the United States. This amount also includes ocean freight on overseas imports to Canada via the United States. The receipts consist of earnings of Canadian railways and steamers which carry exports from the point of origin to the border or coastal ports. The amount paid to Canadian railways transporting American goods in bond across south-west Ontario to Buffalo or up to Montreal is particularly large.

These visible items, exports and imports of commodities and gold coin, and invisible items, freight, tourists, and interestsaccount, are the determining groups in the balance sheet. Other invisible items, such as insurance transactions, immigrant remittances, government expenditures and receipts, tend to offset each others.

(In million $)

	1931		1937	
	Exp.to U.S. Credit	Imp.from U.S. Debit	Exp.to U.S. Credit	Imp.from U.S. Debit
Commodity Trade	266.7	393.8	482.4	490.5
Gold coin and bullion	69.6	1.9	2.3	1.2
Tourist expenditures[1]	238.8	56.9	275	98
Interest and dividends[2]	40.5	153.0	44	195
Freight payments and receipts.[3]	32.0	56.0	57	84

[1] Estimate for 1937 was calculated on the basis of the 1936 figures.

[2] The 1937 figure was estimated on the basis of the percentage of the total interest payment and receipts which in 1931 were paid to and received from Americans.

[3] The 1937 figure was estimated on the basis of the percentage the American account comprised in the 1931 total freight payments and receipts.

Although the balance of trade for 1937 is only a rough approximation it is suffieient for the purpose of illustrating how the invisible items more than offset each other. Tourist receipts offset the excess of interest and freight payments and go far in counterbalancing the debit owing on imports of merchandise.

As would be expected, the commodities imported from the United States are principally industrial products and raw materials for industry.[1] The largest single import in 1937 was crude petroleum, with coal, machinery, automobile parts following closely. Raw cotton and fruits are the most important items in the group of agricultural produce. Other imports of significance include rolling-mill products, electrical apparatus, books and printed matter, farm implements, engines, boilers, silk and its products. During the depression the imports of iron and iron products, which included the most important of construction and industrial equipment, fell from a height of over 300 million dollars in 1929 to 41.8 million dollars in 1933, or over 85%, while total imports fell from 890 million dollars to the low point of 217 million dollars of 75%. Imports of non-metallic minerals fell by nearly 2/3, non-ferrous metals by approximately 5/6. Owing to the beginning of construction again as the depression disappears, the past two years show a marked recovery in the imports in the classes of iron and iron products. The group of iron and its products absorbs more than 27% of total imports from the United States. Non-metallic minerals take the second share of imports, comprising 24.4% of the total. Textiles and fibres come next with a share of 10% of the imports. Imports of agricultural and vegetable products, composed in particular of fresh and dried

[1] See Table IIa, Appendix.

fruits, and vegetable oils, account for nearly another 10% of the total. According to the degree of manufacture, American imports consist predominantly of fully manufactured goods, 59% in 1936-37. The percentage of raw materials is also large, 34.7%, since many commodities, petroleum, raw cotton, coal, silk, stone, and iron ore, are imported for the purpose of further processing in Canadian factories. The percentage of partly manufactured imports is small, 6.4%, since in recent years Canadian tariff legislation has concentrated on encouraging complete processes in Canadian industry.

Imports from the United Kingdom show a different arrangement. Here the most important groups is that of textiles, which absorbs 34% of the total imports. Iron products(17%), agricultural and vegetable products (15%), and nnon-metallic products (11%) are also important. Worsteds, cotton fabrics, woollens, and flax and hemp are dominant among textiles. Iron plates and sheets are the most important iron products. The percentage of fully manufactured imports from the United Kingdom is even greater than from the United States, being 78%.

Exports to the United States show much less diversity than imports. Wood products comprise by far the largest group of exports. Although exports of this group reached a low of 96 million dollars from 240 million in 1929, already they have revived to 179 million dollars. Newsprint is the greatest export and in 1937 comprised 90 million dollars or more than 1/5 of total exports to the United States. Woodpulp comes second with a value of 28 million dollars. The growing importance mining is playing in Canada is evident from the fact that the next class, non-ferrous metals, in 1936-37 comprised 33.8% of the total. The depression drop was to 18 million dollars in 1933 from 94 million in 1929. By 1935-36 exports from this group had not only regained their pre-depression level but had exceeded it. In 1936-37, the increase was even greater and exports were valued at over 120 million dollars , an increase of 30 million dollars over 1929. Abrasives, nickel, and gold are the main items in this group. Canada the great wheat exporting country,finds little market for this product in the United States. Although vegetables products constitute 12% of exports, as the next important group, it is the inclusion of whiskey in this group which gives it hthis importance. Whiskey is the third largest export to the United States, exceeded only by newsprint and woodpulp. Animals and products follow with 9.5% . Cattle and horses are the main components of this class. Exports to the United States are not composed predominantly of raw materials as is commonly supposed to be the case. In fact, in 1936-36 fully manufacutred goods comprised a larger share of exports than raw materials, the rates being 35.6% as against 21.1%. Partly mannfactured commodities constitute the largest group, 41.2%. Not only the fact that facilities for finishing commodities are often better in the United Stat s than in Canada but also the fact that products of American branch concerns in Canada are frequently shipped to the home plant for completing account for this proportion of partly manufactured goods in Canada's export trade.

Exports to the United Kingdom are of different groups than those sent to the United States. The largest proportion is composed of vegetable products, 48%. It is in the United Kingdom market that Canada disposes of the large part of her wheat and flour exports. Animal products take 17%. In this group it is bacon and hams in particular, but also cheese, leather, and cattle, that account for the largeeshare of the British market. Non-ferrous metals are important as exports to the United Kingdom as well as to the United States. Over 47% of exports to the United Kingdom are of raw materials, 24.4% and 27.8% being the proportion of partly and fully manufactured goods respectively.

It is evident that the goods that Canada sends to the United States and those sent to the United Kingdom are not the same types of commodities. Wheat, bacon and hasm, copper, nickel, planks and boards are the main exports to thé British market, while newsprint, woodpulp, and whiskey are the chief commodities sold in the United States market. Whereas as imports from the United States consist of standardized industrial output and raw materials for industry, imports from Great Britain are of fine quality textiles, English china, and special iron plates and sheets. The United States is more important to Canada as a market for manufactures, while Great Britain is more important as a market for agricultural output.

The feature which was the subject of such strong attack in the 'fifties, the intransit trade through the United States, is no longer a matter foraapprehension. The British Preference has been the factor effecting a decline in the amount of imports via the United States and in the amount of exports being shipper overseas via the United States. When imports are obtained from countries with which Canada has a trade treaty, the special treaty rates apply only if the imports come direct to Canadian ports. British goods are given a 10% cut in their duty if they come direct to Canadian ports. The total imports from overseas via the States has declined from 9.5% in 1920 to 2.6% in 1936. Since exports must be shipped direct to Empire countries in order to injoy the Preference, exports shipped via the States have likewise declined. In 1936, 18.4% of exports overseas were sent through the United States while in 1927 39.4% were transhipped in bond through the United States.

When Canada's per capita trade is considered, the importance of foreign trade is clearly seen. Both exports and imports per capita have gro n immensely since Confederation, when $14.38 worth of goods were exported per capita and $19.90 worth were imported. In 1927 percapita exports amounted to $130.14 and percapita imports to $106.97. In the same year the figures for the United States were $39.63 per capita exports and $34.67 per capita imports. Accordingly, for every $1. of goods the United States was exporting, the Canadian citizens were exporting nearly $3.50 of goods. World trade plays a much larger part in Canadian life and standard of living than in the American economy.

Foreign trade is vital to the Canadian economy. One-quarter of all production is in fact for the export market. In contrast the United States is fairly independent of foreign trade. In 1931 only 7.4% of the total American production of exportable goods was exported. Canada is not only dependent upon external trade but she is also dependent upon trade with mainly two countries, the United States and the United Kingdom. The items of Canadian trade are not numerous. Newsprint and other wood products to the United States and wheat and bacon to Great Britain are leading exports. Canadian mineral products, copper, nickel, zinc, asbestos, lead, and gold, are growing in importance.

The export trade to the United States is in a vulnerable position. Forest resources are a fast disappearing asset, but wood products represent more than ¼ of exports to the States. Reckless exploitation of Forests as American demand rose with the depletion of American forests have brought a period of prosperity to the wood industry but lack of reforestation will bring a heavy toll in time. The example of the United States where heedless cutting of forests was followed by lack of supplies has been disregarded. Wheat, although a small export to the United States, is Canada's largest world export and the final weight in Canadian prosperity. Yet its production is subjected to wide vicissitudes of nature and its price is determined independent of Canadian output. If the Canadian economy rested on these two commodities only, the position would be an extremely unstable one. The increasing importance of the export of manufactures, though bought at the heavy price of trade restriction by protection, has lent a firmer foundation to Canada's position in international trade. In proportion to population Canada exports a larger amount of manufactures than the United States. Before the depression Canadian exports of manufactures amounted to \$52 per capita while American exports were only \$19 per capita, a further illustration of Canada's dependence on foreign trade and of the United States' relative independence of the world market.

Chapter 14.

The Future.

Canadian prosperity evolves around the fortune of her export industries, wheat, newsprint and minerals. Her standard of living depends upon her ability to find paying markets for her immense surplus products. It follows that any movement for freer trade will be of vital importance to Canada. The mass of her exports, wheat and wood products, find a market in the United Kingdom and the United States. Her supplies of raw material for industry and machinery are derived from the United States. The United Kingdom supplies the major part of high-grade textiles and steel sheets. Since Canada is dependent upon these two countries not only for export markets but also for sources of supply, it is extremely important for her to have favorable trade relations with both countries. Any trade pact with the United States or with the United Kingdom will bring benefits in proportion to Canadian dependence on them for markets and supplies. Although for years it seemed possible for Canada to have both high tariffs and a large foreign trade, it is becoming more and more evident that the prohibitive barrier of tariffs is more harmful to Canada than to other nations.

Canada must beware of imitating others' examples. She must adopt a trade policy fitting to her economy. Since the United Statespprospered under high tariffs in the nineteenth century, Canada followed the example in hope of equal gain. Many factors, however, make the United States and Canada incomparable. The policy successful in the United States must be interpreted in terms of American conditions. The United States with a population 10 times that of Canada was able to provide a huge domestic market for her goods. Her manufacturers could expand their equipment, increase the division of labor and enjoy specialization which only a large demand makes possible, even when restrictive tariffs choked foreign trade. Canada with 10 million population scattered over a narrow strip 3000 miles long, in five areas distinct politically, economically, socially and religiously, could adopt the same policy only by sacrificing her national income from international trade. The position of her resources, not varied and not unlimited, prevented her from being economically self-suffieient. Her products, few in number but produced in surplus quantities, compelled her to seek exchange in world markets. As a unit within the British Commonwealth Canada could not, as the United States desired and was able to, economically at least, isolate herself from the world of affairs. Canada's one watchword was exchange.

Fortunately, the experiment in the National Policy produced a moderate, but never extreme, protection. By means of this shelter the small Canadian establishment was able to gain a firmer foothold. At the time a one-sided tariff policy was impossible when Canada, a country with potential but undeveloped resources, with a large population of farmers and lumbermen. and only a few struggling manufacturers, found herself facing an adjacent nation whose vast population, booming industries and developing resources threatened to overwhelm the northern country by sheer weight. The Canadian manufacturer could not share the home market with the American manufacturer while he himself was barred from the larger market and the economics of large scale production. As long as the United States maintained ahhigh tariff policy Canadian industry and agriculture was impeded not only by the impossibility of extending the market by selling the States, but also by the flood of American goods which poured in without any hindrance. It seemed wise to give home industry a sheltered period in order to advance in equipment and technique without the devastating competition of the output of advanced American factories. Canadian agriculture and lumber was inaa position to hold its own under competition. Canadian industry extended its domestic market very gradually. For decades Canadian industry was without the advantage of the economies of large scale production. As the home market was extended Canadian industry gained the benefit of internal economies though external economies were still impossible. The time came however when it seemed that any industry unable to maintain itself after years of heavy protection and generous bounties was unfit for the Canadian economy and should not be encouraged.[1]

Obviously tariff policy should be guided by its effect on the national income. An industry should be protected because of its reasonable prospect for future prosperity, not because of its present weakness. Although free trade is a futile ideal in a world of economic nationalism, Canada's part lies in rational tariff legislation, even though prohibitive tariffs rise in the rest of the world. Tariffs are a burden on the unsheltered export industries whose products are sold at world prices and whose purchases are enhanced by the protection for the benefit of weaker non-exporting industries.

The shrinkage of trade during the depression awakened Canada to her own need for freer trade. The limitations of

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[1]A significant effect of the tariff has been the movement into Canada of American branch plants. With the increase of American factories in Canada, there has followed a decrease in imports from the United States of commodities produced in the plant industry. Without the tariff about ½ of the output of American branch plants, or nearly $200,000,000 would have been importe from the United States. (Canadian-American Industry, H.Marshall, F.A.Southard, and K.W.Taylor, p.272)

protection in an economy dependent upon foreign trade was recognized. Until 1932 arbitrary restrictions upon import trade seemed advisable owing to the importation of merchandise at distress prices from the United States and the necessity of curtailing imports in some proportion to the drastic drop in exports. Restriction was regarded also as the easiest means of meeting the unemployment situation. As temporary measures there may be somee justification for prohibitive tariffs but as a permanent policy,restrictive tariffs would prove a boomerang to Canada.

Canada stands in a unique position with her spiritual tie with the Commonwealth and her economical tie with the United States To question whether future Canadian trade will follow the natural route from north to south or the Imperial route to Great Britain is needless. Neither the United States nor the United Kingdom could singly provide a market for the bulk of Canadian exports which now are exported to these two countries. Without the wheat market in Great Britain, Canada's success in maintaining the market for wood products in the United States would provide income for only a portion of her economy. If Canada were to buy only British goods or only American goods she would lose the advantage of either the specialized standardized production of the United States or the high-grade imports from the United Kingdom. Canada's position lies on one of the angles of the triangle formed by the three English speaking countries of the world. The three-way trade is likely to be even more emphasized in the future. With trade restrictions lowered between Canada and the two most powerful nations in the world, Canada would derive not only a direct advantage in her trade but also the gain which would accrue to her if the three countries working together are more able to influence world trade tendency. It has been showed how, in spite of all artificial barriers to trade with the United States, Canadian-American trade has become the most important factor in Canadian external relations. Tariff restrictions have failed to force trade solely into Imperial channels or to decrease Canadian dependence on the export market. The rapid rise in exports to the United States following the 1936 Agreement is an indication of the benefit Canada derices from every small opening in the tariff wall. It is preferable for Canada to increase her purchases from Great Britain by expanding her foreign trade through tariff agreements and so her national income, which would permit larger purchases of British fine quality textiles and china, than to increase British purchases by decreasing American imports.

The sentiment of Goldwin Smith who believed that the boundary between Canada and the United States could not stand because it was only an arbitrary line, has become outdated. Canada no longer needs to choose between Anglicization and Americanization. Canada can remain loyal to Great Britain and yet friendly to the United States. She can keep her ties in the Commonwealth and yet remain North American. Since the end of the nineteenth century a Canadian spirit has grown up which is neither that of Great Britain nor of the United States but something which combines the flavor of Europe with the spice of Canada's North American environment. It was this awakening nationalism which collided with the ambitions of statesmen in the Reciprocity Agreement of 1911. The economic and social magnetism which the 120 millions in the United States exercise on the 10 millions of Canada is proportionately great, but it would be unlikely that a country such as Canada would develop into one of the greatest nations in international trade without at the same time developing a distinctive nationality. As long as world trade and a cosmopolitan outlook remain essential features of Canada, annexation with the United States is a vanished bugbear and absorption in the isolationist States is an impossibility.

Although reflection in these days on any period farther in the future than a few weeks is idle speculation yet it would seem logical to conclude that in face of a warring Europe the centres of industry, commerce, and culture would shift to less inflammable America. It is a new thought to think of Canada as the heart of the Empire. It is interesting, too, to consider how nearly Canada is situated in the northern hemisphere as a potential air-field from which to hop off to Europe or Asia. The future will tell whether Canada will become a great life-line between the cultures and commerce of the world, whether she will develop industrially as forests and mines are exhausted, whether wheat will continue as a cash crop, whether she will become an entrepot between the commercial enters of the United States and England, or whether she will drift into an inglorious appendage of nineteenth century fear. The present indications are that Canada will find prosperity in extending trade relations with both the United States and the United Kingdom.

Table I

TRADE OF CANADA WITH THE UNITED STATES AND THE UNITED KINGDOM[1]

Year[2]	EXPORTS[3] Total Exports	Exports to U.S.	Exports to U.K.	To U.S. %	To U.K. %	IMPORTS[4] Total Imports	Imports from U.S.	Imports from U.K.	From U.S. %	From U.K. %
	(In million $)					(In million $)				
1830		.7					3.7			
40		2.0					6.1	15.4		
49		2.8					8.3	11.3		
50		5.2					9.5			
51		5.3					11.8			
52		5.5					10.2			
53		6.5					12.4			
54		8.8					24.0			
55		15.1					27.7			
56		21.3					29.0			
57		22.1					24.1			
58		15.8					23.6			
59		19.3					28.1			
1860		23.6					22.7			
61		22.7					21.7			
62		18.5					20.6			
63		17.5					27.6			
64		29.6					26.6			
65		33.3					28.8			
66		48.5					24.8			
67		25.0					21.0			
68	48.5	25.3	17.9	52.3	36.9	67.1	22.7	37.6	33.8	56.1
69	52.4	26.7	20.5	51.0	39.1	63.2	21.5	35.5	34.0	56.2
1870	59.0	30.4	21.2	51.4	38.8	66.9	21.7	37.5	32.4	56.1
71	57.6	29.2	21.1	50.6	37.7	84.2	27.2	48.5	32.3	57.6
72	65.8	32.9	25.2	49.9	38.3	105.0	33.7	62.2	32.1	59.7
73	76.5	36.7	31.5	48.0	41.0	124.5	45.2	68.0	36.3	54.6
74	76.7	33.2	35.8	43.3	46.6	123.2	57.7	61.4	42.0	49.9
75	69.7	27.9	34.2	40.0	49.1	117.4	48.9	60.0	41.7	51.1
76	72.5	30.1	36.4	41.5	47.4	92.5	44.1	40.5	47.7	43.8
77	68.0	24.3	35.5	35.8	52.2	94.1	49.4	39.3	52.5	41.8
78	68.0	24.4	35.9	35.9	52.7	90.4	48.0	37.3	53.1	41.2
79	62.4	25.5	29.7	40.8	47.1	78.7	42.2	31.0	53.6	39.3
1880	72.9	29.6	35.2	40.6	48.3	69.9	28.2	33.8	40.3	48.3
81	83.9	34.0	42.6	40.5	50.8	90.5	36.3	42.9	40.6	47.4
82	94.1	45.8	39.8	48.6	42.3	111.1	47.1	50.4	42.3	53.3
83	87.7	39.5	39.7	45.1	45.1	121.9	55.1	57.7	45.3	43.4
84	79.8	34.3	37.4	43.0	45.9	106.0	49.8	41.9	47.0	39.6

[1] Sources: Commerce of British North America. Ex.Doc.No.23. 31st Congress, 2d Session - for years 1830-1849; D.C.Masters, The Reciprocity Treaty of 1854, App.B, Table 4 - for years 1850-67; Canada Year Books - for years 1868-1936.

[2] American fiscal year ending September, 1830 and 1840; Canadian fiscal year ending June 30, 1849-1906, and ending March 31, 1907-1936.

[3] Exports of domestic merchandise only, except for years 1840 and 1849 which include foreign produce.

[4] Imports for consumption.

Table I

TRADE OF CANADA WITH THE UNITED STATES AND THE UNITED KINGDOM.[1] (cont.)

	EXPORTS					IMPORTS				
	Total Exports	Exports to U.S.	Exports to U.K.	To U.S.	To U.K.	Total Imports	Imports from U.S.	Imports from U.K.	From U.S.	From U.K.
	(In million $)			%	%	(In million $)			%	%
1885	79.1	35.6	36.5	44.9	46.1	99.8	45.6	40.0	45.7	40.1
86	77.8	34.3	36.7	44.1	47.2	96.0	42.8	39.0	44.6	40.7
87	81.0	35.3	38.7	43.6	47.8	105.1	44.8	44.7	42.6	42.6
88	81.4	40.4	33.6	49.6	41.3	100.7	46.4	39.2	46.1	38.9
89	80.2	39.5	33.5	49.2	41.7	109.1	50.0	42.3	45.9	38.7
1890	85.3	36.2	41.5	42.5	48.7	111.7	51.4	43.3	46.0	28.8
91	88.7	37.7	43.2	42.6	48.8	111.5	52.0	42.0	46.7	37.7
92	99.0	34.7	54.9	35.0	55.5	115.2	51.7	41.1	44.9	35.7
93	105.5	37.7	58.4	35.4	55.4	115.2	52.3	42.5	45.4	36.9
94	103.9	32.6	60.9	31.4	58.6	109.1	50.7	37.0	46.5	34.0
95	103.1	35.6	57.9	34.6	56.3	100.7	50.2	31.1	49.8	30.9
96	109.7	37.8	62.7	34.4	57.2	105.4	53.5	32.8	50.8	31.2
97	123.6	43.7	69.5	35.3	56.2	106.6	57.0	29.4	53.5	27.6
98	144.5	39.0	93.1	27.0	64.4	126.3	74.8	32.0	59.2	25.4
99	137.3	39.3	85.1	29.0	62.0	149.4	88.5	37.0	59.2	24.7
1900	169.0	58.0	96.6	34.2	57.1	172.7	102.2	44.3	59.2	25.7
01	177.4	68.0	92.9	38.3	52.3	177.9	107.3	42.8	60.3	24.1
02	196.0	66.6	109.3	34.0	55.8	196.7	115.0	49.0	58.4	35.0
03	214.4	67.8	125.2	31.6	58.4	225.1	129.0	58.8	57.3	26.2
04	198.4	66.9	110.1	33.7	55.5	243.9	143.3	61.7	58.7	35.3
05	190.9	70.4	97.1	36.9	50.9	252.0	152.8	60.3	60.6	24.0
06	235.5	83.5	127.5	85.5	54.1	283.7	169.3	69.2	59.6	24.4
07[2]	180.5	62.2	98.7	34.4	54.7	250.2	149.1	64.4	59.5	25.8
08	247.0	90.8	126.2	36.8	51.1	352.5	205.3	94.4	58.2	26.8
009	242.6	85.3	126.4	35.2	52.1	288.6	170.4	70.7	59.0	24.5
1910	279.2	104.2	134.5	37.3	50.1	370.3	218.0	95.3	58.9	25.8
11	274.3	104.1	132.2	38.0	48.2	452.7	275.8	109.9	60.8	24.3
12	290.2	202.0	147.2	35.2	50.7	522.4	331.4	116.9	63.4	22.4
13	355.8	139.7	170.2	39.3	47.8	671.2	436.9	138.7	65.0	20.7
14	431.6	163.4	215.3	37.9	49.9	619.2	396.3	132.1	64.0	21.4
15	409.4	173.3	186.7	42.3	45.6	456.0	297.1	90.2	65.2	19.8
16	741.6	201.1	451.9	27.1	60.9	508.2	370.9	77.4	73.0	15.2
17	1151.4	280.6	742.1	24.4	64.5	846.5	665.3	107.1	78.6	12.7
18	1540.0	417.2	845.5	27.0	56.9	963.5	792.9	81.3	82.3	8.4
19	1216.4	454.9	540.8	34.4	44.5	919.7	750.2	73.0	81.6	8.0
1920	1239.5	464.0	489.2	37.4	39.5	1064.5	801.1	126.4	75.3	11.1
21	1189.2	542.3	312.8	45.6	26.3	1240.2	856.2	214.0	69.0	17.3
22	740.2	292.6	299.4	34.5	40.4	747.8	516.0	117.1	69.0	15.7
23	931.5	369.1	379.1	39.6	40.7	802.5	541.0	141.3	67.4	17.6
24	1045.4	430.7	360.1	41.2	34.4	893.4	601.3	153.6	67.3	17.2
25	1069.1	417.4	395.8	39.0	37.0	796.9	509.8	151.1	64.0	19.0
26	1315.4	475.6	508.2	36.1	37.4	927.3	608.6	163.7	65.6	17.6
27	1252.2	466.4	446.9	37.3	35.7	1030.9	687.0	163.9	66.6	15.9
28	1229.4	478.1	410.7	38.9	33.4	1109.0	718.7	186.4	64.6	16.7
29	1363.7	499.6	429.7	36.7	31.5	1265.7	868.0	194.0	68.6	15.3
1930	1120.3	515.0	281.7	46.0	25.2	1248.3	847.4	189.2	67.9	15.2
31	799.6	349.7	219.2	43.7	26.4	906.6	584.4	149.5	64.5	16.5
32	600.0	257.8	174.0	40.8	29.0	578.5	351.7	106.4	60.8	18.4
33	473.8	197.4	184.4	30.2	38.9	406.2	232.5	86.5	57.2	21.3
34	666.0	220.1	288.6	33.6	39.3	433.8	238.2	105.1	54.9	24.2
35	756.6	304.7	290.9	34.1	41.5	522.4	303.6	111.7	58.1	21.4
36	849.0	360.3	321.6	42.4	37.5	562.7	319.5	117.9	56.8	20.9

[1] See foot-notes on preceding page.

[2] For nine months only.

Table IIa.

TRADE OF CANADA WITH THE UNITED STATES.

IMPORTS
By Main Groups.

For Calendar Years.

Group	1929	1930	1931	1932	1933	1934	1935	1936	1937
	(In millions of dollars)								
Agric. & veg. prods.	103.4	76.4	48.5	33.7	29.6	35.4	30.8	36.1	44.4
Animals & their prods.	39.6	30.1	17.0	9.7	9.0	10.3	10.4	12.1	12.6
Fibres, text's, & prods.	79.7	55.1	35.0	25.5	25.4	31.0	30.1	35.3	39.1
Wood & paper	53.6	41.7	28.4	17.2	13.9	15.8	17.0	21.4	27.5
Iron & its prods.	309.4	196.9	97.1	51.9	41.8	71.1	86.5	108.4	173.9
Non-ferrous met.& prods.	76.8	54.7	30.9	16.0	12.3	19.0	23.4	24.3	31.1
Non-metallic min.& prods.	149.5	128.2	81.6	69.5	54.8	76.3	77.1	85.9	104.7
Chemicals & allied prods.	27.4	24.0	21.1	17.3	13.7	16.6	17.5	18.5	22.5
Misc.	54.2	46.6	34.1	22.7	16.8	18.3	19.7	27.1	34.9
Total	893.6	653.7	393.8	263.5	217.3	293.8	312.4	370.0	490.5

EXPORTS

Group	1929	1930	1931	1932	1933	1934	1935	1936	1937
Agric & veg. prods.	51.3	33.9	12.2	4.7	12.7	47.1	42.5	72.5	38.3
Animals & their prods.	74.0	39.5	24.1	15.3	16.9	17.7	29.5	44.0	48.8
Fibres, text's, & prods.	4.4	2.5	1.8	.9	2.4	.8	2.2	2.9	2.7
Wood & paper.	240.6	203.0	151.3	105.2	96.4	107.8	120.8	143.2	179.5
Iron & its prods.	13.2	7.5	3.6	2.1	4.1	2.8	4.8	6.1	7.0
Non-ferrous met.& prods.	94.2	73.4	41.2	18.8	18.2	23.6	39.8	106.2	154.9
Non-metallic min.& prods.	19.6	14.2	9.3	5.5	8.0	9.1	11.0	15.0	19.4
Chemicals & alled prods.	12.0	9.0	4.5	4.7	5.7	6.3	8.0	7.8	9.7
Misc.	13.3	12.6	9.9	5.5	6.1	7.4	7.3	8.9	9.9
Total	522.6	395.6	257.1	162.6	170.5	222.5	266.0	406.7	470.2

Table IIb.

TRADE OF CANADA WITH THE UNITED KINGDOM

IMPORTS
By Main Groups

For Calendar Years

Group	1929	1930	1931	1932	1933	1934	1935	1936	1937
	(In millions of dollars)								
Agric. & veg. prods.	52.8	44.4	30.5	21.5	18.9	21.3	18.7	17.1	19.4
Animals & their prods.	5.5	4.0	2.7	2.5	2.8	3.2	3.5	4.3	6.1
Fibres, text's, & prods.	72.2	56.4	32.0	27.2	31.0	37.3	39.4	44.2	52.6
Wood & paper.	5.2	4.7	3.9	3.5	3.2	3.2	3.5	3.6	4.1
Iron & its prods.	22.3	19.0	14.1	12.6	15.8	18.7	20.4	21.7	29.8
Non-ferrous met.& prods.	7.1	6.9	4.6	3.6	2.8	4.1	6.0	5.6	7.3
Non-metallic min.& prods.	13.2	13.9	10.5	12.3	13.3	13.4	12.7	12.8	13.3
Chemicals & allied prods.	5.5	4.7	3.9	4.7	5.3	6.2	6.3	6.8	7.9
Misc.	11.0	8.6	7.3	5.6	4.8	6.2	6.1	6.9	6.9
Total	194.8	162.6	109.5	93.5	98.0	113.4	116.7	123.0	147.3

EXPORTS

Group	1929	1930	1931	1932	1933	1934	1935	1936	1937
Agric. & veg. prods.	194.0	152.3	96.8	108.8	112.7	125.3	146.2	199.3	146.2
Animals & their prods.	40.7	32.1	31.6	28.8	38.5	52.9	55.0	68.3	79.7
Fibres, text's, & prods.	1.0	1.1	1.3	1.2	1.8	2.1	2.4	2.3	3.4
Wood & paper	21.6	18.6	13.5	12.0	16.3	26.5	27.7	33.9	44.3
Iron & its prods.	7.8	4.6	3.8	5.2	4.3	9.0	11.3	12.7	14.9
Non-ferrous met.& prods.	15.3	18.4	17.1	15.1	30.2	46.5	52.8	73.3	103.9
Non-metallic min.& prods.	2.2	1.6	1.1	1.3	1.7	2.2	2.1	2.7	3.3
Chemicals & allied prods.	4.7	3.3	2.9	2.9	2.9	3.3	3.0	3.9	5.2
Misc.	3.0	3.1	3.4	2.8	2.4	2.6	3.0	3.4	3.7
Total	290.4	235.2	171.4	178.2	210.7	270.3	303.5	399.8	404.6

Table IIIa

EXPORTS FROM CANADA TO THE UNITED STATES

By Calendar Years

(In millions of dollars)

Item	1930	1931	1932	1933	1934	1935	1936	1937
Newsprint	116.7	95.2	72.6	58.9	68.7	71.0	83.5	105.7
Woodpulp	32.1	23.6	15.1	18.8	20.1	22.3	26.5	32.8
Whiskey	7.0	-	-	3.2	19.5	12.5	22.0	20.7
Planks & boards	26.7	14.1	6.6	6.4	5.8	8.2	12.8	15.5
Cattle	2.5	1.1	0.7	0.3	0.3	5.2	8.6	13.5
Pulpwood	11.3	7.8	4.8	4.7	6.6	7.0	8.1	11.4
Asbestos	3.7	2.2	1.3	2.3	2.0	3.1	4.1	5.3
Abrasives	2.7	1.9	0.6	1.7	3.0	3.2	4.0	5.2
Asbestos sand & waste	1.8	1.1	0.9	0.9	1.0	1.4	2.4	2.9
Nickel, matte & speiss	2.0	1.0	0.5	1.7	1.2	1.5	2.2	2.5
Lobsters, fresh	2.3	1.9	1.9	1.6	1.6	1.6	2.1	2.4
Bran, shorts, middlings	2.7	1.1	0.2	1.5	1.8	3.1	3.9	2.2
Horses	0.1	0.1	0.2	0.3	0.4	0.6	2.1	1.3
Mink skins	0.8	0.9	0.7	1.1	1.3	1.4	2.2	11.2
Cheese	0.6	0.2	0.7	0.1	0.1	0.1	1.6	0.7
Maple sugar	1.2	0.5	0.6	0.4	0.6	0.2	1.3	0.5

Table IIIb

IMPORTS FROM THE UNITED STATES TO CANADA

Machinery	45.3	25.5	13.8	9.4	15.5	16.7	25.5	41.3
Crude petroleum	27.3	15.4	19.4	14.5	24.1	26.2	30.5	36.8
Automobile parts	16.0	10.2	6.8	6.7	12.1	24.4	23.9	32.6
Coal	48.1	31.5	23.5	19.1	26.3	24.7	26.5	30.6
Rolling mill prods.	36.4	16.2	6.6	4.7	9.2	11.5	14.7	26.5
Raw cotton & manuf'res	26.7	16.7	12.6	15.2	20.6	18.2	23.0	24.7
Fruits, fresh & dried	21.1	15.7	12.8	10.0	10.8	11.8	14.7	15.4
Farm implements	20.6	3.7	2.0	2.0	2.9	5.0	8.8	16.3
Automobiles	19.9	6.8	0.9	0.9	1.5	2.5	7.2	15.1
Electric apparatus	1.0	0.5	6.5	4.4	6.8	7.4	9.4	12.7
Books & printed matter	13.5	10.5	7.3	6.0	6.4	6.9	9.0	11.6
Engines & boilers	9.9	7.0	5.6	4.5	6.4	7.5	7.3	9.6
Stone & prods.	5.6	3.3	1.7	1.5	3.0	3.4	4.5	7.4
Paper & manuf'res.	10.0	7.2	4.5	3.5	3.6	3.8	4.7	5.6
Vegetables	7.4	5.6	3.4	2.7	2.8	3.1	4.0	4.8
Raw silk	5.2	4.8	4.9	4.2	3.6	5.2	3.7	4.6

Table IIIc

EXPORTS FROM CANADA TO THE UNITED KINGDOM

By Calendar Years

(In millions of dollars)

Item	1930	1931	1932	1933	1934	1935	1936	1937
Wheat	113.8	63.6	76.0	76.6	88.2	103.8	154.9	95.8
Copper & prods.	0.6	2.0	5.7	9.6	15.0	14.9	23.2	35.8
Bacon & hams	2.9	1.5	3.8	8.4	18.8	19.8	25.1	32.5
Nickel & manuf'res.	5.9	4.3	1.3	6.6	10.1	12.6	14.1	24.6
Planks & boards	5.6	3.2	3.5	7.7	15.8	13.6	19.0	23.6
Wheat flour	14.3	7.9	7.7	8.3	8.8	9.3	10.0	13.5
Cheese	12.1	10.0	8.5	7.6	6.1	6.0	9.4	11.8
Lead & prods.	3.3	2.0	1.8	3.0	3.0	4.5	6.2	10.9
Aluminium & prods.	2.1	1.9	1.2	4.2	4.9	6.1	8.2	9.1
Zinc & prods.	3.2	3.4	2.3	3.4	5.4	6.5	7.0	8.4
Platinum	1.5	1.1	1.1	1.1	5.2	5.0	6.8	8.1
Rubber manuf'res.	5.9	4.1	1.9	2.5	3.2	3.3	4.7	5.6
Leather, unmanuf'red	1.1	1.5	1.7	2.4	2.6	3.4	5.1	4.6
Machinery	0.4	0.4	0.2	0.3	2.0	2.4	3.2	4.6
Lard & compounds	-	0.3	0.3	0.2	0.0	1.8	3.4	3.8
Tobacco leaf	1.0	1.6	3.1	3.7	2.0	211	2.9	2.6
Cattle.	0.5	2.2	1.3	3.2	3.5	0.4	2.9	0.9

Table IIId

IMPORTS FROM THE UNITED KINGDOM INTO CANADA.

Iron plates & sheets	8.0	6.3	6.6	9.5	11.0	10.8	10.7	14.9
Coal	6.7	5.0	7.7	9.0	8.6	7.6	6.8	5.9
Worsteds & serges	8.0	3.8	3.2	2.2	2.7	3.8	4.2	5.9
Worsted tops	2.3	1.9	2.4	3.4	3.5	4.1	5.1	5.8
Vegetable oils	1.1	1.0	1.1	1.3	.9	4,1	4.0	5.0
Flax, Hemp, jute	5.2	3.4	2.8	3.3	3.7	4.0	4.1	4.9
Whiskey	23.2	16.5	10.3	8.8	10.3	4.9	3.3	4.2
Machinery	3.8	3.1	3.0	2.1	2.6	2.4	2.6	3.8
Tea	5.8	2.8	2.6	2.3	3.4	2.7	2.9	3.3
Woollen yarn	2.3	1.9	2.0	2.5	3.0	2.4	2.8	3.3
Tableware, china	2.5	2.4	2.4	3.4	2.7	2.4	2.8	3.2
Cotton yarn	1.3	0.5	0.3	0.3	2.8	2.3	2.4	2.9
Books & printed matter	2.5	2.3	2.0	1.9	2.0	2.1	2.2	2.3
Cotton fabrics, printed or dyed.	9.7	6.3	6.3	7.5	9.8	10.9	3.3	3.4

Table 4.

CANADIAN AND AMERICAN PER CAPITA EXPORTS AND IMPORTS.

Year[1]	Canadian Exports P.C.	American Exports P.C.	Canadian Imports P.C.	American Imports P.C.
1886	$16.94	$11.62	$20.92	$10.89
1896	21.57	12.29	20.72	10.82
1906	38.16	19.90	45.98	14.06
1916	92.29	53.01	63.24	23.06
1926	139.73	39.81	98.12	37.24
1927	130.14	39.63	106.97	34.67
1928	125.46	41.31	112.76	33.49
1929	136.43	41.77	126.20	35.14
1930	109.75	30.21	122.28	24.88
1931	77.08	18.86	83.37	16.56
1932	57.11	12.42	55.07	10.44

[1] Canadian figures: fiscal year ending June 30,1886-1906; ending March 31, 1916-1932.
American figures: calendar years.

Table 5a

CANADIAN AND AMERICAN EXPORTS AND IMPORTS
ACCORDING TO DEGREE OF MANUFACTURE.

	Raw Materials		Partly Manufactured		Fully Manufactured	
Canada	Imports %	Exports %	Imports %	Exports %	Imports %	Exports %
1899-00	24.9	41.5	10.6	17.7	64.5	40.8
1936-37	29.0	35.9	9.8	27.9	61.2	36.2
The United States						
1899-00	44.0	40.2	15.8	11.2	40.2	48.6
1936-37	44.7	30.1	20.3	16.3	35.0	53.6

Table 5b

CANADIAN TRADE WITH THE UNITED STATES AND THE UNITED KINGDOM
ACCORDING TO DEGREE OF MANUFACTURE.

1936-37

	Raw Materials		Partly Manufactured		Fully Manufactured	
	Imports %	Exports %	Imports %	Exports %	Imports %	Exports %
U.S.	34.3	21.1	6.4	43.3	59.3	35.6
U.K.	10.5	47.2	11.3	23.4	78.2	29.4

Table 6

COMMODITIES OF THE TRADE AGREEMENT OF 1936.

Imports from the United States.
(In million $)

	1935	1936	1937
Imports on which Canadian duties were reduced.	Calendar years		
Oranges	5.0	5.9	6.8
Fresh fruits	10.1	12.7	13.7
Fresh vegetables	3.0	4.0	4.8
Newspapers and periodicals	2.6	4.0	5.9
Pork	-	.3	.2
Automobiles, passenger	1.7	5.7	12.4
Automobile parts	14.5	23.9	32.6
Machinery	16.7	25.5	41.3
Imports on which free entry or existing rates were bound			
Lemons	1.0	1.4	1.1
Indian corn[1]	.2	.3	.3
Raw cotton and linters	15.2	19.0	19.7

Exports from Canada to the United States

	1935	1936	1937
	Calendar years		
Exports on which American duties were reduced.			
Whiskey	12.5	22.0	20.7
Cattle - 700 lb. or more per head		4.8	11.0
less than 175 lb." "		.6	1.5
Horses	.6	2.1	1.3
Cheddar cheese	.1	1.6	.7
Cream		.1	.2
Maple sugar	.2	1.3	.5
Fish	10.1	12.3	13.0
Exports on which existing duties were bound			
Bran, shorts, and feeds	3.1	3.9	2.2
Non-agreement exports			
Wheat	16.5	22.2	1.5
Nickel and alloys	16.1	22.6	22.7
Exports on which free entry was bound			
Newsprint	70.9	83.5	105.7
Woodpulp	22.2	26.5	32.8
Red cedar shingles		4.6	5.8

[1]Figures are for April to December only.

Table 7.

THE EFFECT OF THE TRADE AGREEMENT OF 1936.

Exports from Canada to the United States.[1]
(In million $)

	1935	1936	% increase
Total Exports	258.4	352.5	36
Total dutiable exports	108.3	173.5	60
Dutiable exports on which the duty was reduced	37.3	67.0	80
Dutiable exports on which the duty was not reduced.	71.1	106.5	50
Free goods	150.1	178.9	19
Bound free	126.6	151.5	20
Not bound free	23.4	27.4	17

Imports to Canada from the United States.[1]

Total Imports	296.5	354.9	19.7
Imports on which the duty was reduced	119.5	155.7	30.2
Imports on which the duty was not reduced.	177.0	199.2	12.5

Canadian-American Trade and Trade with the World[1]

Imports from Canada to the United States on which the duty was reduced	35.1	64.7	84.2
Imports from all other countries to the United States	15.3	31.5	106.1
Imports from the United States to Canada on which the duty was reduced	119.5	155.7	30.3
Imports to Canada from all other countries.	94.3	109.4	1[illegible]6.1

Total Trade of Canada and of the United States.[2]

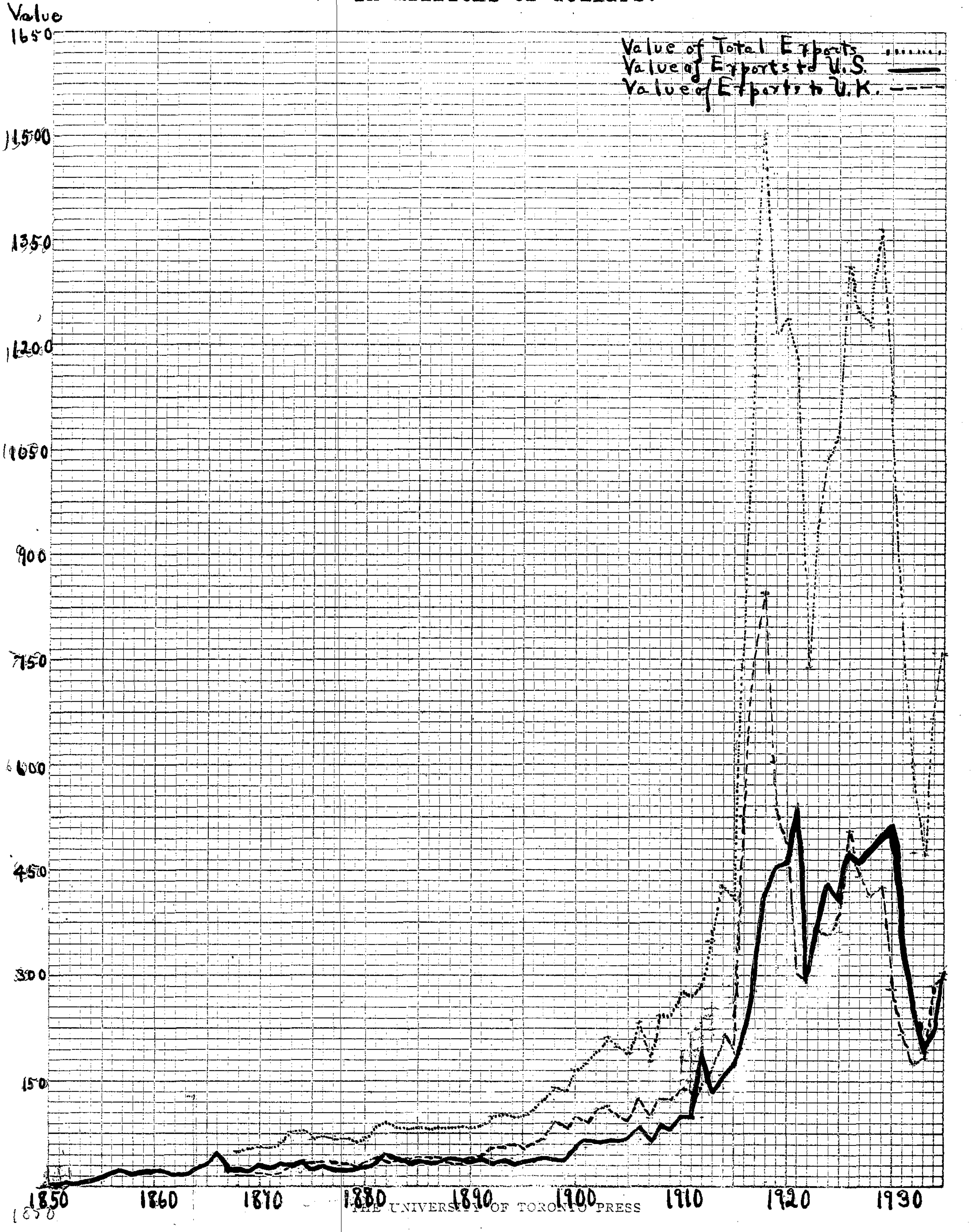
Total Canadian imports increased 12%, 1935-36.
American imports to Canada " 19%, 1935-36.
Total American imports " 17%, 1935-36.
Canadian imports to U.S. " 32%, 1935-36.

[1] Adapted from tables, in "A Year of the Canadian Trade Agreement," H.Feis, Foreign Affairs, July, 1937, p.619.

[2] Adapted from tables in "Address on Reciprocity Trade Agreements and Trade Barriers", W.W.McLaren, Conference on Canadian-American Affairs, Queen's University, Kingston, June, 1937.

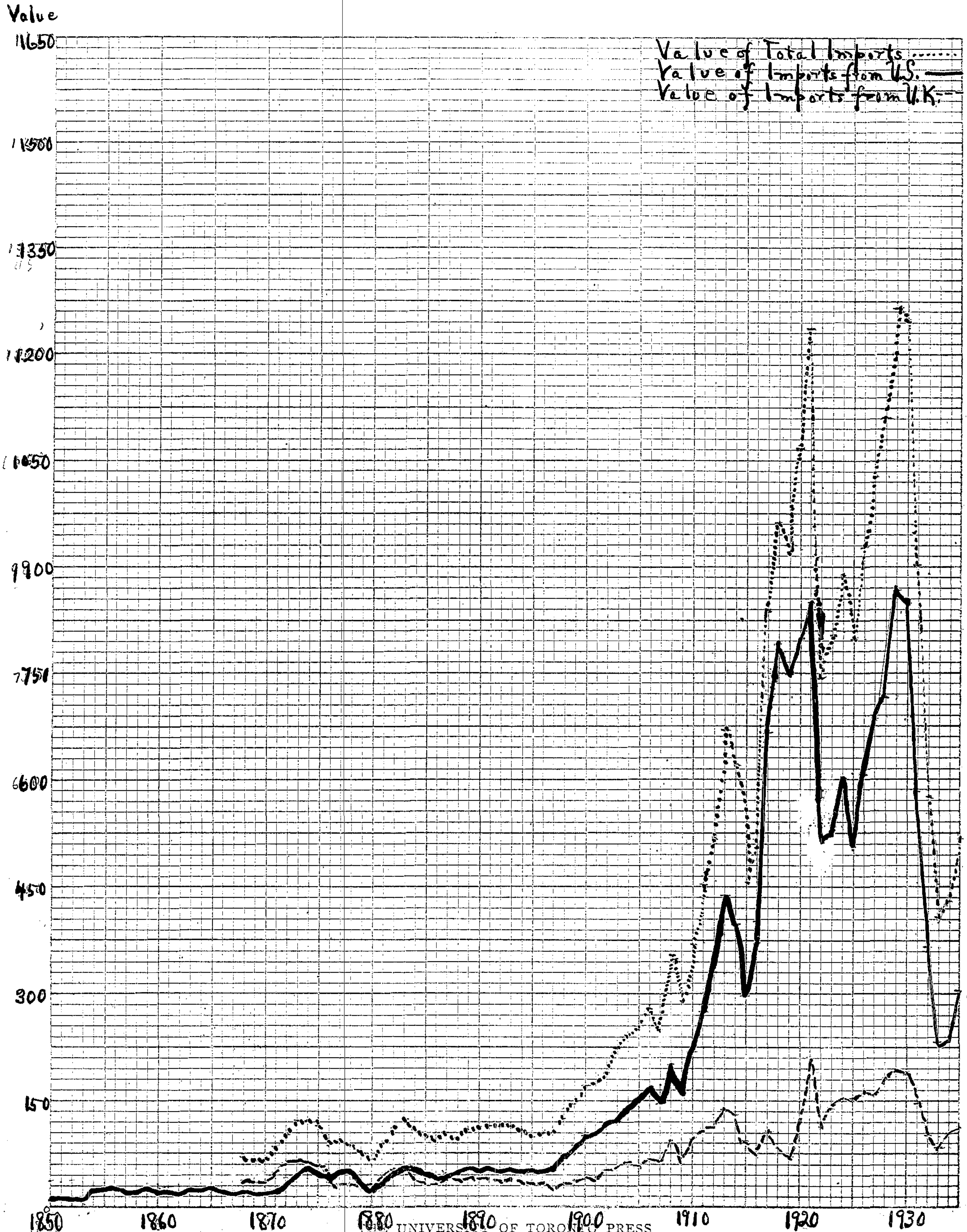
Graph 1.

EXPORTS FROM CANADA TO THE UNITED STATES AND THE UNITED KINGDOM
In millions of dollars.



Graph 2.

IMPORTS TO CANADA FROM THE UNITED STATES AND THE UNITED KINGDOM
In millions of dollars.



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