

Economic Recovery in Canada in 1933

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Economic Recovery in Canada in 1933

BY H. A. INNIS

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An analysis of economic conditions in Canada, in 1933 assumes a knowledge of the character of the preceding boom and of the depression. A survey of the depression in Canada presented elsewhere^[1] emphasized the key position of wheat in the Canadian economy and the effects of a decline in production and in price. Enormous investments of capital in the improvement of transportation (railways, canals, steamships, and elevators) devoted primarily to the movement of wheat, and in the development of plant and equipment designed to meet the demands for producer's goods and consumer's goods involved in wheat production, were affected by the fluctuation in returns on wheat. Substantial dependence on this staple commodity accentuated the depression. The situation has changed very slightly. Wheat production fluctuated as follows:

1929—305,000,000 bushels;	1930—398,000,000 bushels;
1931—271,000,000 bushels;	1932—431,000,000 bushels;
1933—283,000,000 bushels (possibly 260)	

Exports of wheat and flour increased from 207 million bushels in 1931-2 to 263 million in 1932-3 and carry over continued to increase.

1927—48,000,000 bushels;	1928—78,000,000 bushels;
1929—104,000,000 bushels;	1930—111,000,000 bushels;
1931—134,000,000 bushels;	1932—132,000,000 bushels;
1933—212,000,000 bushels.	

Prices increased from a low point of 42 cts. in December 1932 to 83 cts. in July 1933 but declined to 60 cts. in October. Prices have been primarily influenced by fluctuations in sterling and the dollar and the increase may be generally attributed to the monetary policy of Great Britain and the United States. In spite of a general expectation of a large reduction in world wheat

stocks prospects point only to a slight increase in the price of wheat. To offset the slight improvement in the outlook for the wheat situation there has been a marked decline in the standard of living, particularly in the province chiefly concerned: Saskatchewan. The depression in so far as it has been determined by wheat has improved slightly if at all. The effects on railway finance, on public finance directly in the prairie provinces and indirectly in the Dominion have been evident in a reduction of revenues and in assistance on the part of the Dominion through loans and direct contributions in relief. "Territory which formerly contributed largely to traffic and railway earnings and to revenue from the tariff" tends to remain largely a negative area. The enormous overhead costs incidental to capital investments in direct and indirect relation to wheat continue to involve a heavy inflexible load.

Recovery in Canada has been primarily concerned therefore with commodities other than wheat and produced mainly in areas other than the prairie provinces. It has been concerned with international demands rather than with domestic demands particularly in relation to the large potential purchasing power of the Western provinces. The by-product industries which developed largely in relation to the demands of a rapidly expanding western market have become the basic main industries producing for export. These industries, mining, and pulp and paper, and their subordinate industries, such as hydroelectric power, which in their initial stages of development tended to reduce the overhead costs on stretches of non-remunerative railway line have developed by virtue of their own enormous overhead as bases for a continued supply of traffic. Having advanced to the stage of maturity largely as by-products of railway construction in relation to wheat, such industries occupy a strong competitive position in relation to foreign markets. The enormous capital investments of the boom period involved in the installation of pulp and paper and hydroelectric power plants have been brought into production with the depression and have been stimulated by the steady pressure of overhead costs.

The mining industry has been more directly affected by the depression and has exercised an important influence in reducing overhead costs. Gold production has been stimulated by the decline in the general price level but activity in mining development has probably been more significant than production. Areas, such as in Great Bear Lake, discovered during the intensive activity of the boom period have been developed during the depression. Construction of new mining plants has continued throughout the depression.

	Index number of wholesale prices 1926 = 100	Production of Gold 000 ozs.
Oct.	65.0	253.1
Nov.	64.8	252.5
Dec.	64.0	266.7
Jan.	63.9	233.4
Feb.	63.6	228.2
March	64.4	260.2
April	65.4	237.0
May	66.9	237.7
June	67.6	261.4
July	70.5	255.7
Aug.	69.4	256.6
Sept.	68.9	235.6
Oct.	67.9	-----

The sustained production of gold was accompanied by increasing interest and general activity in the installation of new plant and equipment, the opening of new mines, and the development of intense speculative enthusiasm. Prices of gold stocks increased from 54.6 in the first week of November 1932 to 111.9 in the first week of November 1933. Moreover the production of gold was an important factor in the production of copper. Gold was produced as a valuable by-product of copper and made possible continued production of that commodity at Noranda and Flin Flon. The consequent elasticity of supply was obvious in the increase in production which accompanied an increase in price.

	Copper production tons	Exports 1926 = 100	Copper prices electrolytic cwt.
Oct.	11,293	38.5	7.301
Nov.	8,858	21.3	7.305
Dec.	11,105	45.8	7.021
Jan.	11,475	15.3	6.905
Feb.	8,583	50.0	7.050
March	10,854	29.0	7.180
April	9,888	6.2	7.618
May	10,528	36.9	8.928
June	12,633	39.0	9.702
July	14,734	36.6	10.371
Aug.	14,040	68.0	9.815
Sept.	15,277	51.3	9.479
Oct.	-----	113.2	9.129

Zinc and lead were produced chiefly in British Columbia and were particularly important in their effects on overhead costs in terms of railroads, smelters and hydroelectric power. Silver was produced in part as a by-product.

Production and prices increased as follows:

	Lead Production tons	Prices lead cwt.	Zinc production	Prices Smelter cwt	Silver 000 ozs.	Price of silver Index number 1926 = 100
October	9,930	3.264	6,852	3.667	1,511	48.1
November	13,180	3.373	6,653	3.834	1,515	49.5
December	9,972	3.386	6,984	3.971	1,299	46.6
January	10,391	3.262	6,946	3.924	1,384	46.8
February	9,313	3.400	6,325	3.983	1,307	50.3
March	9,612	3.459	6,903	4.152	1,286	53.9
April	11,807	3.416	6,708	4.139	1,351	58.1
May	12,925	3.636	6,963	4.294	1,176	62.8
June	10,353	3.933	7,810	4.637	882	63.9
July	9,983	4.174	7,173	5.095	1,048	64.2
August	11,942	3.889	8,150	4.809	1,186	61.8
September	11,484	3.848	9,155	4.802	979	64.4
October	-----	3.688	-----	4.657	-----	63.1

The immediate effect of a rise in prices is shown in increased production of zinc and lead. Nickel has shown a spectacular increase in production chiefly as a result of military activities. Prices continued unchanged at 97.5 (1926 = 100) but production increased as follows:

	Nickel production tons	Exports 1926 = 100
October	339	40.1
November	1,071	46.4
December	614	38.2
January	684	67.1
February	890	99.5
March	995	101.6
April	10,854	104.2
May	9,888	174.8
June	10,528	166.0
July	12,633	151.2
August	14,734	132.2
September	14,040	179.0
October	15,277	148.7

The effects of increased production of metals are shown in mining employment statistics.

	Employment 1926 = 100
November	134.9
December	134.0
January	129.8
February	132.8
March	134.2
April	131.3
May	133.7
June	135.9
July	142.0
August	151.7
September	156.5
October	158.8
November	159.4

The opening of new mines particularly in relation to gold and expansion of production especially in the base metals have created demands for a wide variety of mining supplies and in turn strengthened the position of railroad traffic.

In the pulp and paper industries indices of recovery are evident in the following table:

	Production index 1926 base 100	Exports Thousands of dollars	Employment index 1926 base 100	Newsprint shipments 1000s tons
October	97.3	7,037	73.8	157.57
November	101.9	6,858	70.2	164.33
December	92.7	5,952	67.1	140.77
1933 January	90.9	5,423	67.7	133.06
February	85.9	4,472	68.3	120.92
March	85.9	5,640	66.2	140.69
April	93.3	4,698	67.9	161.27
May	105.4	6,668	72.6	165.52
June	109.0	5,989	74.5	171.68
July	113.3	6,557	77.3	181.66
August	122.7	6,557	79.3	194.35
September	117.5	6,921	76.8	183.97
October	118.3	6,602	77.4	190.33

Prices dropped from 60.3 (1926 = 100) in March to 53.4 in April and declined slightly to September but increased to 53.8 in October. These changes reflect an increase in demand for newsprint in the United States and suggest an increase in advertising and business activity as well as an increase in discussion presumably regarding the New Deal.

The pulp and paper and mining industries had important effects on the consumption of hydroelectric power. It is impossible to isolate these industries from total consumption but the trend in the more important areas is evident.

Average daily output of kilowatt hours (thousands)

	Quebec	Ontario	British Columbia	Maritimes	Total Canada
October	24,632	11,243	3,058	1,642	43,957
November	27,435	11,119	3,199	1,770	47,236
December	25,868	10,522	3,328	1,696	45,186
January	25,327	10,259	3,307	1,437	44,075
February	26,662	11,564	3,341	1,184	45,468
March	24,125	11,321	3,211	1,305	43,447
April	23,463	11,280	3,067	1,465	42,514
May	24,442	10,832	3,033	1,618	42,851
June	25,802	11,639	3,048	1,805	44,976
July	26,389	12,073	3,007	1,714	45,802
August	27,927	12,670	3,150	1,413	47,843
September	27,635	13,337	3,287	1,483	48,750
October	28,326	14,001	3,528	1,799	51,265

In the lumber industry, areas in which production involves heavy overhead costs and in which costs of production are low by virtue of a favourable geographic background have responded quickly to the demands of international trade and of domestic requirements. Production declined from about four billion feet in 1928 to one billion feet in 1933. Low stock supported prospective activity of lumber mills in eastern Canada and economic improvement in Australia and higher cost production in the United States together with a tariff on Canadian lumber contributed to the development of increased exports to China and the Orient. It has been estimated that logging crews totalled 17,700 men on Oct. 1, 1933 in contrast with 7,740 men at the same date in 1932. International demands for construction material are reflected also in asbestos exports.

	Planks and boards exports 1926=100	Shingles exports 1926=100	Timber scaled B.C. million bd. ft.	Lumber, timber box, crate cooperage by revenue freight tons	Employment Logging 1926=100	Lumber and timber prices 1926=100	Asbestos exports 000s of dollars
Oct.	25.7	61.2	110.1		37.9	68.4	373
Nov.	23.3	50.2	99.8		56.2	68.2	298
Dec.	23.9	42.6	80.5	87,468	74.5	66.6	353
Jan.	32.3	64.2	49.1	75,607	67.3	66.4	272
Feb.	29.4	49.8	37.4	92,869	57.1	64.8	146
March	32.7	38.7	67.8	111,881	35.6	65.1	214
April	27.4	43.7	98.5	130,328	35.1	64.7	176
May	40.0	87.9	166.8	194,877	40.7	65.8	366
June	44.3	86.2	183.1	230,522	49.5	72.0	368
July	54.1	87.2	180.7	251,429	48.9	74.2	419
Aug.	59.9	105.1	168.7	221,777	48.3	74.7	510
Sept.	56.8	71.5	196.9		64.7	75.3	570
Oct.	54.6	51.6			110.3	75.8	665

The fishing industry has responded similarly to improvements of world trade. Dried fish have continued to suffer from the effects of world competition but other varieties have increased. Exports of livestock and meat products also increased.

	Fish Exports 000s dollars	Canned salmon exports 000 cases	Prices Fishery products 1926=100	Cattle exports 000s dollars	Meat exports 000s dollars
Oct.	1,423	57.72	60.8	74	487
Nov.	1,261	42.39	60.2	74	327
Dec.	1,550	69.53	59.3	41	605
Jan.	1,391	51.26	60.0	69	632
Feb.	1,083	35.05	59.7	235	429
Mar.	1,315	47.48	57.3	258	644
Apr.	479	6.81	59.3	167	462
May	1,085	85.03	59.3	337	1,092
June	1,786	128.74	60.6	363	1,148
July	2,187	35.92	61.3	407	1,039
Aug.	2,474	89.96	64.9	383	805
Sept.	1,890	133.69	65.4	447	1,257
Oct.	2,069	144.31	65.3	434	1,072

As a result of these various items, total exports and the balance of trade have improved as follows:—

	Total exports of domestic produce 000 dollars	Balance of trade 000 dollars
Oct.	57,160	+ 20,066
Nov.	46,621	+ 8,852
Dec.	43,109	+ 14,147
Jan.	32,000	+ 7,559
Feb.	26,814	+ 3,300
Mar.	37,161	+ 4,198
April	20,312	- 145
May	46,108	+ 13,182
June	46,472	+ 12,854
July	51,866	+ 16,127
Aug.	45,135	+ 6,388
Sept.	58,328	+ 19,630
Oct.	60,760	+ 19,634

The effects of gradual improvement in the basic industries indicated in this survey were reflected in various indices of internal trade.

Factors responsible for these changes refer primarily to external developments. Abandonment of the gold standard by the United States and its general monetary policy replaced a premium of 14-1/8 cts. on United States dollars on Dec. 19, 1932 by a discount of 5/8 of 1 per cent a year later and increased the price of sterling from \$3.80 to \$5.11 in the same period of time. Exports to Great Britain, particularly of agricultural products encouraged by the Ottawa agreements, have been stimulated by the rise of exchange, and areas which suffered severely from an adverse exchange in 1932, for example the Nova Scotia apple region, gained from a favourable exchange in 1933. The trade position in relation to the United States on the other hand has been weakened slightly by the disappearance of the premium but this has not affected materially the general advantage of a rise in price of commodities.

Internal conditions have contributed to the improvement. The basic importance of capital equipment in terms of railways and canals, smelters, mines, paper mills and hydroelectric power plants have emphasized the importance of overhead costs. Problems of the wheat producing region have tended to emphasize the burden of overhead costs on non-remunerative

sections of the railways and on traffic produced by mines and paper mills developed in those regions. Declining prices have been particularly important in supporting the development of gold mining and subordinate industries. The pressure of overhead costs has combined with relatively low costs of production incidental to dependence on recent development of natural resources (pulp and paper, minerals and water power) and on metallurgical industries able to command the most recent contributions of technological research, and on the development of industries as by-products of wheat transportation, to place producers of export materials in a strong position in world markets. Ruthless weeding out of inefficient plants in the pulp and paper industry has tended in the same direction. Finally, the weak position of industries, subordinate to wheat production and transportation, and in turn of labour and of agriculture in Eastern Canada have been responsible for lower wages and lower prices for other industries. Exports of livestock have been encouraged by the low prices of farm products incidental to the weakening of the domestic market following the decline of wheat production in Western Canada. The ruthlessness of the depression in a country largely dependent on a staple product such as wheat with widely fluctuating yields and prices tends to force prices down and to support a strong competitive position. This advantage was particularly evident in competition with such an important rival as the United States which has tended to increase costs through such activities as the National Recovery Act. It is claimed for example that exports of Canadian lumber on the Pacific coast have largely displaced American lumber in external markets as a result of lower costs. With these advantages Canada has gained from improvements in common markets such as Australia, the Orient and Great Britain.

The enormous expansion of capital equipment during the war period and the boom period further strengthened the position of Canada during the depression since it involved the installation of plants of most recent design and enabled Canadian producers to maintain production in spite of low prices. The Welland Canal, the Hudson Bay railway, the expansion of facilities in the port of Vancouver in relation to Panama canal traffic, completion of smelters at Noranda and Flin Flon, development of West Indies steamship service to Halifax and St. John, the development of branch lines and even completion of the Abitibi canyon power project late in the depression may be cited as indications of technological advances sustaining production. The industrial advances of the war for example in the development of the selective flotation process for the manufacture of zinc and the consequent expansion in the Kootenay region, the improvement of

the aeroplane, which facilitated the rapid development of prospecting and the opening of the Bear Lake region, and the enormous impetus of the motor boat and its effects for example on the opening of new wheat areas have contributed to the same end.

The effects of the shock of the depression have depended on the position of Canadian industry in relation to the advanced stages of industrialism. The later stages of industrialism have implied reliance on the base metals, such as copper, nickel, zinc, cobalt, lead and have implied new sources of power particularly hydroelectric power and petroleum. The demands of the electrical industry, including the radio and the automobile, and the weakness of iron as a base of advanced industrialism and its consequent demands for metals to serve as alloys are examples of the position of Canadian products not only in relation to demand but also in relation to supply. Canadian development assumes a movement from a coal and iron base to one of hydroelectric power and copper and other metals and depends on the most advanced stage of industrialism in terms of production and consumption. Dependence on hydroelectric power with its heavy initial costs of construction implies an enormous drive to industrial activity in terms of overhead costs. In the general trend of increasing emphasis on overhead costs in recent industrial development and the consequent pressure on the market the Canadian economy is in a powerful position not only in maintaining a parallel development but in accentuating the movement. Its loss in relation to the demand of consumers for foodstuffs in the case of wheat has been offset in part by its gain in the shifting demand of consumers for the most recent products of modern industrialism e.g. automobiles and the radio. The pressure of these commodities on the market has not only been evident in Canadian development as dependent on minerals but also on newsprint as supplying the medium by which the pressure may be exerted namely advertising.

In the foregoing analysis, emphasis has been given to the technological factors responsible in long and short run periods for evidences of recovery in Canada. Enormous capital equipment essential to the production of the important raw materials assumes heavy fixed charges. The problems of wheat production have been serious. Western governments particularly Saskatchewan have been forced to borrow extensively from the Dominion (nearly \$43,000,000) and to witness numerous defaults of municipalities as well as to witness a substantial lowering of the standard of living for this population. Debt adjustment boards have been set up and have been active in scaling down debts. In urban centres costs of unemployment relief have been heavy and the long years of the depression have brought exhaustion of

reserves shown in the disturbing increase of tax arrears. On the other hand in areas more dependent on mining and hydroelectric power increased activity and the decline of the American dollar have provided a more adequate base of support and reduction of the burden in so far as payments are made to New York. The province of Ontario has been able to report a surplus.

The problem of debt adjustment is particularly acute in Canada not only as a result of the development of an economy in relation to wheat, and the problems of wheat in the present depression which are of primary concern to Western Canada and the Dominion Government with its interest in transportation, and the recovery of minerals and products of primary interest to particular provinces, but also because of the peculiar type of development in relation to wheat. The importance of water transportation especially canals and of government ownership in railways has involved enormous outlays on the part of the government and heavy fixed charges including interest payments and deficits. This factor has been responsible for serious rigidities in the structure especially in such items as railway rates. Readjustments through disappearance of dividends on private corporations as in the case of the Canadian Pacific railway, and reorganizations, for example of pulp and paper companies, are impossible in terms of government ownership. Indeed, the rigidities incidental to government ownership have accentuated the problems of private enterprise. Inelasticity has not been adequately relieved through wage adjustments, reductions of railway rates, disappearance of dividends, innumerable economies and a lower standard of living in Western Canada. The problem of relations between the provinces and the Dominion precludes realignment—certainly any rapid and adequate realignment—of burdens between different areas. Finally, the importance of government ownership and consequent rigidity has involved not only heavy deficits during the depression and budgetary difficulties but also the assumption of burdens incidental to depreciation through obsolescence. The Welland Canal, the Panama Canal, the Hudson Bay railway, and construction of roads have involved additional burdens to the government and the taxpayer and to the security holders of the Canadian Pacific railway and of steamship lines. Fundamentally the attack on the St. Lawrence route especially from Vancouver involves the most deeply rooted problems. New York competition has been weakened in part but remains as a dominant factor in Canadian railway rate structure. The development of the Pacific coast route and of the Hudson Bay route have contributed to the major crises of Canadian economic development. The Hudson Bay route was a powerful factor contributing to the defeat of the French in the treaty of Utrecht in 1713 and to the downfall of New France in 1763. Along with the

Pacific coast route it broke the control of the St. Lawrence over Western Canada in 1821. There is much evidence to show, particularly with the rise of Japan, that control built up by transcontinental railways after 1885 from the St. Lawrence is destined again to meet competition from these two routes which in the long and steady grind of economic forces will load new burdens on the government as a result of depreciation through obsolescence. The adjustments must come through governmental machinery. The solidity and security of the Canadian banking system based on government ownership and government support demands governmental machinery rather than bankruptcy. Already this machinery has been substantially developed. Conferences between the Dominion and the provinces with regard to motor legislation, the development of an arbitral board for the railways, the creation of a tariff board with a view to checking disturbances and eliminating inequalities and finally a determination to institute a central bank, and possibly export boards, suggest the general trend but even with the energy of the present administration, democracy moves slowly.

- [1] Economic conditions in Canada in 1931-2. *Economic Journal*, March 1932, and Problems of staple production (Toronto 1933), 98ff.

TRANSCRIBER NOTES

Misspelled words and printer errors have been corrected. Where multiple spellings occur, majority use has been employed.

Punctuation has been maintained except where obvious printer errors occur.

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