GROWTH AND FUTURE OF THE CANADIAN MARKET
1900 TO 1975

OTTAWA, CANADA

JULY, 1956

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FOREWORD

This study on the growth and future of the Canadian market has been prepared at the request of the Toronto Chapter of the American Marketing Association for inclusion as Part I in a book on "Marketing in Canada," a reference book for businessmen and others interested in a bird's eye view of the character, composition and growth prospects of the Canadian market and of methods of marketing in Canada. The book was planned in the autumn of 1953, as a symposium of contributions from about a dozen representative Canadian economists and businessmen. Editorial difficulties have delayed the publication of this book, originally scheduled for 1955.

In the meantime numerous inquiries have been received for copies of Part I dealing with the growth and future of the Canadian market. To meet these requests the Toronto Chapter of the American Marketing Association has agreed to a preliminary release of this material on a limited basis to parties particularly interested in the subject.

This study was completed early in 1955 on the basis of data and information then available, covering the period up to 1953. Economic developments since then, and particularly the rapid rate of economic expansion in 1955, suggest that the estimates on future growth prospects may be, if anything, on the conservative side. Subsequent to the completion of this study, the Canadian Government appointed a "Royal Commission on Canada's Economic Prospects" (Order in Council dated June 17, 1955, P.C. 909) authorizing a comprehensive inquiry into the whole field of "probable economic development of Canada and the problems to which such development appears likely to give rise." After the Royal Commission was established, a copy of this study on "Growth and Future of the Canadian Market" was made available to the Commission to assist it in its endeavours to obtain background information available on the subject of its inquiry. But it bears emphasis that the material contained in this study was prepared completely independent of the work of the Royal Commission on Canada's Economic Prospects, and is in no way an indication of the data and appraisal that the Commission may choose to include in its final report and in its economic studies.

This study is comprised of two chapters. The first deals with "Growth of the Canadian Market." It reviews the expansion of the Canadian market from 1900 to 1953; it examines the changing pattern and character of the market; it deals with the major sectors of the Canadian market; and it concludes with a brief indication of some of the implications for businessmen of the rapid growth and increasing complexity of the Canadian economy.

The second chapter deals with "Future of the Canadian Market," covering the period up to 1975. Four alternative patterns of growth of the Canadian market are appraised, a "high consumption" economy, a "high investment" economy, a "high government expenditure" economy, and an "average" pattern economy. The chapter concludes with some comments on possible uses of market projections by Canadian businessmen and others interested in the growth prospects of the Canadian economy. Following each of the two chapters are appendices containing some technical notes explaining the sources of the data and the methods of estimation.

In the preparation of this study I had the very competent assistance of two of my colleagues, Mr. T. R. Vout and Dr. E. J. Chambers.

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Department of Trade and Commerce.

Ottawa, Canada,
July, 1956.

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CHAPTER 1. GROWTH OF THE CANADIAN MARKET

Summary

Most market appraisals prepared for use by Canadian business deal with specific commodities or services of interest to particular firms. But specific commodity and service markets are in turn affected by the overall strength or weakness of the Canadian market. For if the pie as a whole is large, the chance of a competitive firm getting a big slice is better than if the pie were smaller. Hence, it is important to relate market analysis for specific commodities and services to the actual and potential size of the total market to ensure that specific market projections are realistic in the light of what seems to be in store for the Canadian economy as a whole.

The Canadian market as defined in this chapter comprises both the domestic and the foreign markets. The domestic market covers the total purchases of goods and services by Canadian residents, that is, imports of goods and services as well as those originating in Canada itself. Foreign markets cover Canada's exports of goods (including re-exports of imported materials and parts) and of services. Looking at the Canadian market from the point of view of who is the customer, it can be divided into four major markets: consumer goods, capital goods, government and foreign markets. The sum total of all expenditures made in these four markets (after deducting imports of goods and services) is generally described as "gross national expenditure." Information on gross national expenditure and its components as well as related data is available in great detail in quarterly and annual issues of the "National Accounts" published by the Dominion Bureau of Statistics. This publication, which shows what the nation produces in aggregate every three months and every year and how this total production is distributed among various users, is becoming a "must" reading for anyone interested in the behaviour and changing pattern of the Canadian market.

Basic forces shaping the Canadian market include: (1) the vastness of the land, which has led to comparatively thin settlement except in some regional pockets, and has given Canada a heavy overhead burden in terms of high per capita costs of transportation, communication, distribution and government. (2) Climatic conditions which are such that it has taken significant technological progress to overcome many but not all adversities, e.g., seasonal variations in economic activity and sales opportunities remain great and distinct. (3) Canada's natural resources, bountiful as they are, because of nature and location could only be developed in most cases by making large capital expenditures and securing markets large enough to justify economic production. (4) Because the Canadian people are a product of a large variety of cultures and traditions, there are significant differences in their mode of life and preferences. Canada's domestic market is not homogeneous, as it is frequently claimed. Rather, it is the sum of a number of varying regional and local markets. The main characteristic of the domestic market is that the Canadian customer, being by world standards fairly wealthy, is also a "demanding" customer who expects businessmen to cater to his whims and preferences.

The Canadian market is a dynamic market of a predominantly private enterprise character. It depends heavily for its prosperity on the maintenance of a high level of export trade, the latter representing close to one-quarter of Canada's gross national expenditure. Regional and local variations in the Canadian market pattern have been influenced to an important extent by differences in income levels. Per capita income in some provinces is twice that in others. Similar differences are to be found in the income levels of different cities. Knowledge of levels of income and income differentials as well as differences in consumer preferences are essential tools in any appraisals of the varying market prospects for particular regions and localities.

In 1900 the Canadian market represented total sales of about $1 billion; in 1953 it had reached a peak of over $24 billion. Allowing for changes in the price level, the Canadian market was about 6½ times as great in 1953 as it had been at the beginning of the century. A little more than one-half of the growth of the market has been due to the increase in population and a little less than one-half has been due to increases in real output per capita, the latter having made it possible for Canadians to increase their real earnings. The market has grown at an uneven rate. Expansion was particularly rapid in the first decade of the twentieth century, in the latter part of the 1920's, and during World War II and the post-war period. There were also periods of slow growth, such as the early 1920's, and periods of protracted decline, such as the early 1930's. In addition to the depression of the 1930's, there were six other occasions when the market contracted for short periods of time, usually 12 to 18 months. But by and large the trend of the Canadian market has been upward and the chances of facing an expanding market as against a contracting market have in the past 50 years been about four to one.

The outstanding feature of the long-term changes in the make-up of the Canadian market are the strong emphasis which Canadians have placed and continue to place on the accumulation of capital and the increasing importance played by government on the economic affairs of the nation. The trend is less clear-cut with respect to Canada's dependence on foreign markets. For a good part of the last half a century foreign markets became more important for the Canadian economy, but more latterly the situation seems to have been reversed as the domestic market expanded more rapidly than foreign markets. But on balance foreign markets continued to be more important to Canadian prosperity in the 1950's than they had been at the turn of the century. As these three markets increased in importance over the last 50 years or so, the proportion of the total output which the nation has used to meet the wants of consumers has correspondingly declined. This meant that the consumer goods market has not risen as rapidly as the others. But notwithstanding this fact, the actual improvement in the standards of living of Canadians has been substantial indeed. With the rise in real consumer expenditures per capita and significant increase in population, the consumer goods market did in fact expand very substantially in absolute terms.

In 1953 the market for consumer goods and services represented total sales by Canadian businessmen and importers of $15.2 billion. Of this $10.5 billion represented sales of goods and $4.7 billion sales of services. The consumer goods and services market in 1953 was five times the volume of the market in 1900. Population growth turned out to be a more important factor contributing to the expansion of this market than increases in real consumer expenditures per capita. Still, on a per capita basis the average consumer had more than twice as many goods and services in real terms as in 1900. Besides the very much larger volume of goods and services which the average Canadian is now able to purchase, there have also been significant improvements in quality and in variety. The major changes in the pattern of the consumer market are: Canadians now spend less in relative terms on the essentials of life - food, clothing and shelter - than they did at the turn of the century. On the other hand, many new types of consumer expenditures are being made as a result of technological developments, for example, the motor car and electrical appliances. Other expenditures that have risen considerably over this period include alcoholic beverages, tobacco, health care, education and insurance.

In 1953 capital expenditures on new construction and machinery and equipment by private industry, individuals, institutions and governments amounted to $5.7 billion. Of this $1 billion were spent by government departments, and on government-operated institutions and housing, with the "private" capital goods market absorbing $4.7 billion. Of this amount $2.8 billion were spent on new construction and $1.9 billion were spent on new machinery and equipment. In 1953 the "private" capital goods market was nine times the volume it had been in 1900 (in real terms). The market for machinery and equipment expanded more rapidly than the market for construction. Reasons for construction expenditures being more important in the earlier periods include (a) the fact that, with industrialization just getting underway, the creation of plant facilities was relatively more important than it is today; (b) the comparatively simple type of equipment available in this period; (c) the necessity to make large capital expenditures to meet the most urgent needs for shelter (and related community facilities) of a rapidly growing urban population. Of the four major markets, the capital goods market has turned out to be the most volatile.

Government expenditures on goods and services amounted to some $4.4 billion in 1953. Of this amount $2.5 billion, or 57 per cent, represented outlay by the Federal Government, and $1.9 billion, or 43 per cent, expenditures by provincial and municipal governments. Government expenditures on goods and services in 1953 were sixteen times in volume terms what they had been in 1900. Federal Government expenditures increased more rapidly than those of provincial and municipal governments. The main reason for this has been the necessity for substantial Federal expenditures on defence in the 1950's. But if military outlays are excluded, expenditures by the Federal Government for civilian purposes have risen less rapidly over the last half a century than expenditures by provincial and municipal governments. Another type of government expenditures which is not reflected in government expenditures on goods and services has become more important in the more recent period. These are transfer payments as, for example, family allowances, old age pensions, and other social security benefits to individuals. Transfer payments affect the Canadian market indirectly, e.g., when a recipient of social security benefits spends the money on consumer goods and services, rather than directly as is the case with government expenditures on goods and services. Total government spending (as per National Accounts) amounted to $6.9 billion in 1953, consisting of $4.4 billion expenditures on goods and services and about $2.5 billion on transfer payments (including inter-governmental transfer payments) and subsidies.

In 1953 Canada exported a total of $5.4 billion of goods and services to over 100 countries. Of this total, 79 per cent consisted of commodity exports and 21 per cent of payments received for services rendered to other countries, ranging from tourist trade to insurance services. Total exports of goods and services in real terms in 1953 were eleven times what they had been in 1900. The market for services rose even more rapidly than the market for commodities, mainly because of the tremendous increase in receipts from freight and shipping transactions with other countries, the much larger expenditures of tourists and foreign travellers in Canada, and increased interest and dividend payments received by Canadians from their much greater investments abroad. There has been a change in the pattern of the destination of Canadian commodity exports. In 1900 the United Kingdom absorbed 52 per cent of total commodity exports and the United States 38 per cent. By 1953 the position had been reversed, with the United States being Canada's best customer, 59 per cent, and the United Kingdom Canada's next best customer, with 16 per cent. Over this period other countries more than doubled in importance as markets for Canadian produce, taking 25 per cent of Canada's exports in 1953 as compared with 10 per cent in 1900.

There are two main changes in the composition of Canada's exports over the last half a century: (a) Exports are now based to a greater extent on the sales of minerals and metals and their products and there is relatively somewhat less dependence on exports based on agriculture and forest resources; (b) With the development and diversification of industry, this country has been able to export many more of its raw materials in processed or fabricated form. In the main four factors have been influential in changing the pattern of Canada's export markets: (1) shift in foreign demand, (2) scientific and technological developments which have made possible greater exploitation of Canadian resources, (3) the opening up of the western hinterland and the northern regions of the country, and (4) the growth of processing and manufacturing industries. The major shifts that have occurred reflect the adaptability of the economy to changing market conditions in foreign countries. A major factor contributing to this has been a willingness to make large capital expenditures for which returns could only be expected after foreign markets had materialized.

The implications for business management of the rapid growth and increasing complexity of the Canadian market is simply this: marketing analysis in Canada has come of age. It is now recognized to be essential enough and complicated enough to warrant the services of specialists well trained to understand the behaviour of the market in total as well as its component parts, and sufficiently competent to advise executives on trends and prospects as a means of assisting in the formulation of successful policies of product marketing and capital expansion. But business executives will want to look at market appraisals, forecasts and projections with a critical eye, realizing that they are limited in value and subject to many qualifications. With all the developments of modern techniques, statistical investigations, market surveys, economic projections and appraisals, the cardinal requirement for successful business decisions remains: the application of good common sense.

What is meant by the Canadian market? How has the Canadian market grown, and what are the basic forces underlying the rapid expansion Canada has experienced over the last half a century? What changes in the pattern of the market have taken place during that period? These questions are dealt with in summary fashion in this chapter as a background to the assessment of the possible future growth of the Canadian market reviewed in Chapter 2.

What Is Meant by Canadian Market?

In a highly developed specialized economy like Canada's, what is produced must be sold either in the domestic market or abroad. The Canadian market is defined in this chapter as comprising both the domestic and the foreign markets. The domestic market covers purchases of goods and services by Canadian residents, that is, imported goods and services as well as those originating in Canada itself. Foreign markets cover Canada's exports of goods (including re-exports of imported materials and parts) and of services. Though Canada in both aggregate and in per capita terms ranks very high amongst the trading nations in the world, it is in the domestic market that Canadian businessmen have the best opportunities to sell what they produce. Over three-quarters of their total output is marketed here in Canada.

A number of technical questions arise in defining and measuring the size of the Canadian market and its make-up and in appraising market trends. These technical questions may be of greater interest to the marketing analyst than to the general reader. If the reader is more interested in finding out how the Canadian market has grown and what some of the reasons for its growth were, he may wish to skip the next section dealing with definitions and methods of measurement and analysis and turn to the section that follows, dealing with "Basic Forces Shaping the Canadian Market" on p. 21.

Definitions. The prosperity of the Canadian economy is not very different from the prosperity of the individual businessman. If a business cannot sell all that it produces, profits may slip, and the firm may not be prosperous for very long. Through the times in which business instincts have guided man in making a living through production and exchange he has understood this simple equation: What is produced equals what is sold plus additions to inventories. Only in comparatively recent times have economists come to realize that this simple truth applies to the way a nation conducts its economic affairs.

Now most economists are accustomed to explaining things in a complicated way. The justification for this, it is said, is the complex manner in which a highly industrialized economy like Canada's operates. So, economists, with the help of statisticians, have developed an integrated system - alas, intricate system - of national accounts designed to show who gets what in the process of producing the nation's output and who buys what as the nation's output is disposed of. Generally speaking, the market value of the nation's output for a given period of time, usually a calendar year, is called "gross national product;" the expenditures made to purchase the gross national product are called "gross national expenditure." The economists take the attitude that, by definition, gross national product always equals gross national expenditure. This is an accounting identity which may be stated as the total output of final goods at market prices equals total sales at market prices plus inventory change. It may be compared to some accounting identities for an individual firm such as that of the balance sheet where assets equal liabilities plus the owner's equity, or that of the income statement where total revenues equal total expenditures including taxes plus net profits. But the fact that as an accounting identity total output equals total sales plus inventory change must not be interpreted as implying that in the economy there is always a perfect balance of the forces of aggregate supply and aggregate demand such that capacity production can at all times be attained. In fact, past history suggests that the Canadian economy, as the economies of most other industrialized nations, is one subject to constant change.

There are four major groups of customers for the nation's output: domestic consumers, businessmen, governments, and people and governments in other countries. Here is what happens if these four major groups buy too little or try to buy too much at one time: If they absorb less than the nation as a whole is capable of producing, then some resources will be unused; some plants may be idle or working at partial capacity, some businessmen will be doing less business than they are capable of handling and the number of unemployed will be greater than appears to be necessary in a dynamic economy. (Even under the most favourable circumstances, some people will always be unemployed in an industrialized economy, like Canada's, because of seasonal factors, the necessity for occupational mobility and allowance for sickness, incapacity, etc.). If, on the other hand, the above four groups endeavour to absorb more than the nation is capable of producing, the country will experience inflation in the absence of such countervailing measures as higher taxes, credit restrictions, etc., unless their demands can be met, at least temporarily, by increasing imports without increasing exports. In such a case, the payment for imports is either postponed (through borrowing) or it is made from accumulated exchange reserves (a very limited expedient, for no nation can live beyond its means for very long).

Methods of Measurement. Why is it important for anyone trying to understand the working of the Canadian market to familiarize himself with what the national accounts can tell him? The answer simply is that every business transaction which takes place in Canada is part and parcel of the endeavours of the nation either to produce or to distribute its output. Among the many things marketing analysts may want to know are: How big is the market, and how much money are the people earning who buy in this market? The answer to these questions - and to many others - is found in the national accounts. The national accounts contain, first, summary tables on the gross national product, gross national expenditure, national income, and personal disposable income; second, a sector by sector analysis in account form of the components of the above aggregate measures; third, the industrial distribution of national income; fourth, the geographic distribution of personal income; fifth, a set of supplementary tables giving more detailed quantitative information on the several components of total output. These national accounts are published regularly on an annual and quarterly basis by the Dominion Bureau of Statistics in Ottawa.(1) Their continuing use by anyone interested in keeping under professional surveillance changes in the Canadian market has become as essential as it is for the business executive to get regular reports on sales, inventory holdings and profits of his company.

The reader is referred to the national accounts publications of the Dominion Bureau of Statistics for an explanation of what concepts of measurement are used in Canada and for the results of the various estimates that yield such important aggregates as gross national product and gross national expenditure. In the compass of this chapter, only two things can be done by way of introduction:

1. To give the definition of the basic aggregates of gross national product and gross national expenditure as set out by the Dominion Bureau of Statistics and show, by way of illustration, the key table of the national accounts, reconciling the two aggregates for one year (see Table 1);
2. To suggest possible reorganization of some of the data shown in the national accounts to yield constituent items and aggregates of particular interest to marketing analysts (see Table 2).

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(1) Dominion Bureau of Statistics, National Accounts, Income and Expenditure, 1926-1950, price $1.00; National Accounts, Income and Expenditure, 1949-1952, price 50 cents; National Accounts, Income and Expenditure, 1950-1953, price 50 cents. The national accounts on a quarterly basis are found in Dominion Bureau of Statistics, National Accounts, Income and Expenditure by Quarters, 1947-1952, price 75 cents; National Accounts, Income and Expenditure, annual subscription price $1.00 per year.

National Accounts. According to the Dominion Bureau of Statistics, gross national product measures "the value of goods and services produced by Canadian residents in a given period (a year or a quarter) by adding together all costs arising in production. For the economy as a whole, these costs consist first of factor costs, that is to say, the earnings of the factors of production employed: wages and salaries, investment income including corporation profits before taxes, and net income of unincorporated business. The sum of these factor costs is the national income. To arrive at the total which measures production at market prices it is necessary to add elements of market prices which do not represent incomes of factors of production, that is, depreciation allowances and similar business costs, and indirect taxes less subsidies." The resulting total, called gross national product, represents valuation in current dollars of the nation's output in a given year or quarter. Now as this output is disposed of, those who purchase or otherwise acquire the goods and services created make expenditures and the total of these expenditures is called gross national expenditure. This aggregate is defined as the sum total of expenditures on all final goods and services, measured by the total value of their sales at market prices. Conceptually gross national product equals gross national expenditure simply because "what is produced must be disposed of, either by sales or additions to inventories."(1)

The key tables in the national accounts are the first two. They show national income and gross national product in one table and gross national expenditure in the other. The components of these aggregates for the year 1953 are assembled in this chapter in Table 1.

Rearrangement for Marketing Analysis. In Table 2 of this chapter, the items of the national accounts have been rearranged to meet two specific requirements for facilitating market analysis (for detailed explanations and a key to relate the data shown in Table 2 to the data as shown in the national accounts, see appendix at the end of this chapter):

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(1) National Accounts, Income and Expenditure, 1926-1950, op. cit., pp. 9 and 10. In this and in the subsequent chapter the terms "gross national product" and "gross national expenditure" are used interchangeably.

TABLE 1. - KEY DATA FROM THE NATIONAL ACCOUNTS: GROSS NATIONAL PRODUCT AND GROSS NATIONAL EXPENDITURE, BY MAJOR COMPONENTS, CANADA, 1953.

(Millions of Dollars)

Item No.	Components of Gross National Product	Amount $ Mill.	Item No.	Components of Gross National Expenditure	Amount $ Mill.
1	Wages, Salaries and Supplementary Labour Income	11,661	1	Personal Expenditure on Consumer Goods and Services	15,165
2	Military Pay and Allowances	309	2	Government Expenditure on Goods and Services(1)	4,408
3	Investment Income	3,744		Gross Domestic Investment(2):	
	Net Income of Unincorporated Business:		3	New Residential Construction	1,061
4	- Accrued Net Income of Farm Operators from Farm Production(3)	1,649	4	New Non-Residential Construction	1,726
			5	New Machinery and Equipment	1,922
5	- Net Income of Non-Farm Unincorporated Business(4)	1,680	6	Change in Inventories	572
			7	Exports of Goods and Services(5)	5,420
			8	Deduct: Imports of Goods and Services	-5,860
6	NET NATIONAL INCOME AT FACTOR COST (1+2+3+4+5)	19,043	9	Residual Error of Estimate	-64
7	Indirect Taxes Less Subsidies	2,908			
8	Depreciation Allowances and Similar Business Costs	2,336			
9	Residual Error of Estimate	+63			
10	GROSS NATIONAL PRODUCT AT MARKET PRICES (6+7+8+9)	24,350	10	GROSS NATIONAL EXPENDITURE AT MARKET PRICES (1+2+3+4+5+6+7-8-9)	24,350

Source: National Accounts, Income and Expenditure, 1950-1953, Dominion Bureau of Statistics, Ottawa, 1954.

(1) Includes défence expenditures of $1,909 million. Includes outlay on new durable assets such as building and highway construction by governments, other than government business enterprises. Also includes the change in inventories of government commodity agencies and the Defence Production Revolving Fund. Excludes shipments of previously produced military equipment to N.A.T.O. countries but includes replacements of new equipment.
(2) Includes capital expenditures by private and government business enterprises, private non-commercial institutions, and outlays by individuals on new residential construction.
(3) This item includes the undistributed earnings of the Canadian Wheat Board, and an inventory valuation adjustment for grain in Wheat Board channels, on a calendar year basis.
(4) Includes net income of independent professional practitioners.
(5) Excludes shipments of previously produced military equipment to N.A.T.O. countries under the Defence Appropriation Act.

(a) To show the cash income that Canadians earn each year and that is available to them for spending on the goods and services which businessmen and others (professional people, farmers, etc.) have to offer for sale.

(b) To show the type of goods and services that are being sold on the Canadian market by major categories and to indicate the types of customers who purchase the final goods and services as they reach the market.

The major difference between the account on the left side of Table 1 and of Table 2 is that in Table 2 data on total personal disposable income and total disposable cash income are specifically shown, together with the direct and indirect taxes which Canadians are paying. Total personal disposable income (item 6) is income left after taxes to spend on goods and services or to save. Since imputed income, for example, the value of home-grown food consumed by farmers, is included in this item, the figure of greatest practical value to the marketing analyst may be total personal disposable cash income (item 7). This figure is arrived at simply by omitting imputed proprietors' income (item 3) from total personal disposable income. It bears emphasis that Canadians do not spend all the income they earn (after taxes) on consumer goods and services. They also save money, between 4 and 9 per cent of their net earnings over the last five years. While Table 2 does not specifically show personal savings, it can easily be arrived at by deducting from total disposable income (item 6 on the left side of the account) total personal expenditures on goods and services (item 1 on the right side).

The presentation of gross national product in the form of Table 2 also makes it possible to detect at a glance the tax burden on the Canadian economy. Since taxes affect the purchasing power of consumers, item 8, direct taxes, and item 13, indirect taxes, give a bird's eye view of the tax incidence on the nation's output.

Turning now to re-arrangements of the components of gross national expenditure (on the right side of Table 2), the items are so organized as to show: (a) the total domestic market (item 17), separately for goods and

TABLE 2. - GROSS NATIONAL PRODUCT AND GROSS NATIONAL EXPENDITURE ADAPTED FOR MARKETING ANALYSIS, CANADA, 1953.

Item No.	Components of Gross National Product	Amount $ Mill.
1	Net Compensation of Employees(1)	10,715
2	Net Proprietors' Cash Income(2)	3,145
3	Proprietors' Imputed Income(3)	1,422
4	Transfer Payments to Persons	1,527
5	Deduct: Succession Duties and Minor Taxes	-145
6	Personal Disposable Income (1+2+3+4-5)	16,664
7	Personal Disposable Cash Income (1+2+4-5)	(15,242)
8	Add: Direct Taxes	1,432
9	Total Personal Income (6+8)	18,096
10	Deduct: All Transfer Payments(4)	-1,990
11	Add: Earnings Not Paid Out to Persons(5)	2,937
12	NATIONAL INCOME (9-10+11)	19,043
13	Add: Indirect Taxes	3,017
14	Deduct: Subsidies	-109
15	Net National Product at Market Prices (12+13-14)	21,951
16	Add: Depreciation Allowances and Similar Business Costs	2,336
17	Residual Error of Estimate(7)	63
18	GROSS NATIONAL PRODUCT AT MARKET PRICES (15+16+17)	24,350

Item No.	Components of Gross National Expenditure	Amount $ Mill.
1	Personal Expenditure on Goods and Services (2+3+4+5)	15,165
2	Durable Goods	1,778
3	Semi-Durable Goods	1,843
4	Soft Goods	6,882
5	Services	4,662
6	Gross Domestic Investment (7+8+9+10)	5,281
7	New Residential Construction	1,061
8	New Commercial, Industrial and Institutional Construction	1,726
9	New Machinery and Equipment	1,922
10	Change in Inventories	572
11	Government Expenditure on Goods and Services (12+13+14+15+16)	4,408
12	Government Construction	857
13	New Machinery and Equipment	111
14	Other Goods	1,620
15	Direct Services	1,697
16	Interest on Portion of the Public Debt Representing Existing Assets	123
17	TOTAL DOMESTIC MARKET(6) (1+6+11-10-16)	24,159
18	Goods (2+3+4+7+8+9+12+13+14)	17,800
19	Services (5+15)	6,359
20	Exports of Goods and Services (21+22)	5,420
21	Goods	4,296
22	Services	1,124
23	TOTAL DOMESTIC AND FOREIGN MARKET(6) (17+20)	29,579
24	Goods (18+21)	22,096
25	Services (19+22)	7,483
26	Deduct: Imports of Goods and Services (27+28)	-5,860
27	Goods	4,209
28	Services	1,651
29	Residual Error of Estimate(7)	-64
30	GROSS NATIONAL EXPENDITURE AT MARKET PRICES (23+10+16-26-29)	24,350
31	Goods (24+10-27)	18,459
32	Services (25+16-28)	5,955

Source: Based on a regrouping of the items shown in the National Accounts, Income and Expenditure, 1950-1953, Dominion Bureau of Statistics, Ottawa, 1954.

(1) Net of personal income taxes.
(2) Covers business, professional, farm, rental and investment income and includes all government debt interest payments paid to persons, net of personal income tax.
(3) Chiefly home-grown products used by farmers and imputed rental income on owner-occupied dwellings.
(4) Covers transfer payments to persons, corporations and non-profit institutions.
(5) Includes the undistributed earnings of the Canadian Wheat Board.
(6) Excludes change in inventories and interest portion of the public debt representing existing assets.
(7) Gross National Product and Gross National Expenditure are conceptually identical measurements. Since estimates are prepared separately for each, some statistical errors appear to be unavoidable. The statistical discrepancy between Gross National Product and Gross National Expenditure is split and one half added to each.

services, (b) the total foreign market (exports, item 20), separately for goods and services, and the sum of both the domestic and foreign markets (item 23).

The domestic market is the sum of all purchases made by Canadian consumers (personal expenditures on consumer goods and services, item 1), to businessmen, institutions and homeowners (gross domestic investment excluding inventories, item 6 minus item 10), and to governments (covering military and civilian expenditures, for both goods and services, item 11). A case can be made for either excluding or including additions to inventories as comprising part of the domestic market. Inventory changes are excluded in Table 2 in order to bring the measurement of the domestic market closer to the possible concept of actual <u>sales</u> to buyers. A manufacturer who produces commodities he cannot sell readily is using up resources, but the end product is added to his inventories, rather than being sold to a customer (for further explanation, see Appendix at the end of this chapter).

The domestic market covers purchases by Canadian residents of Canadian-produced commodities, as well as of imported products (see item 26). Canadian products, in turn, may be made of domestically-produced materials and parts, or imported materials and parts, or a combination of these two. The total domestic market is divided into purchases of commodities and into purchases of services. In most cases, the Canadian marketing analyst will be concerned with an appraisal of the market for specific commodities. If he wishes to relate estimates of that particular commodity market to the total domestic market for goods, the appropriate figure will be item 18.

Expenditures by consumers (item 1) are shown separately for durable goods, e.g., appliances and furniture; semi-durable goods, e.g., clothing; soft goods, e.g., food; and services, e.g., medical services and holidays. Hence, the marketing analyst who wishes to relate the sales of appliances, for example, to an appropriate market aggregate could use as a comparable figure total personal expenditures on durable goods (item 2), rather than total personal expenditures on goods and services which include outlay by consumers on such diverse items as motor cars, rent and insurance.

Expenditures by businessmen, homeowners and institutions (item 6)(1) cover capital expenditures on new construction separately for residential and industrial, commercial and institutional purposes, on machinery and equipment and on inventories.(2)

Government expenditures cover outlay on goods and services made by federal, provincial and municipal authorities. They do not include what the economists call "transfer payments", e.g., social security payments to individuals, such as family allowances and old age pensions. Separate information is shown for government construction, purchases of new machinery and equipment, outlay on other goods and on direct services, and interest on the portion of the public debt representing existing assets.(3)

The above classification of government expenditures makes it possible for the marketing analyst to compare construction expenditures of any one type with the total construction market in Canada (items 7 + 8 + 12). Furthermore, it is possible to relate the market for a particular type of equipment to the total Canadian market for machinery and equipment. Such a comparison with an overall aggregate of machinery and equipment purchases in Canada can be made by reference to the sum of items 9 and 13.

As to sales of Canadians to foreign markets (exports, item 20) they are shown separately for goods (item 21) and for services (item 22). The latter include such items as expenditures by foreign tourists in Canada, shipping space provided foreigners in Canadian bottoms, and dividends and interest received by Canadian investors in companies operating outside Canada.

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(1) This item is described in the national accounts as "Gross Domestic Investment": "Investment" to indicate the capital nature of the expenditures; "Domestic" to indicate that these are expenditures made in Canada; "Gross" to indicate that these are capital expenditures before depreciation (see item 16 on left side of the accounts in Table 2).

(2) The above classification follows the national accounts' pattern as shown in Table 1.

(3) Interest payments by the government to individuals are usually classed as transfer payments. However, national accounts statisticians have generally agreed to the convention of making an exception for interest on the portion of the public debt representing existing assets. They consider these expenditures as payments for services because the government-owned assets are currently in operation as is the case with school buildings, publicly-owned hospitals, etc. On the other hand, the transfer portion of service charges on the public debt essentially represents payments arising from debts which have been contracted for unproductive purposes, in particular those associated with armament expenditures during World Wars I and II.

The total of domestic and foreign markets is the sum of items 17 and 20, with information again shown separately for goods and services. Since total sales both at home and abroad include goods and services imported into Canada (item 26), these have to be deducted to arrive at gross national expenditure (item 30), which it will be recalled, represents the sales value at market prices of the Canadian content of the nation's output (equal to gross national product). Again, gross national expenditures on goods (item 31) are separated from those on services (item 32).

The suggestions made in Table 2 as to the possible reorganization of national accounts' data may be helpful to some marketing analysts, while others may wish to emphasize a different grouping or different aggregates. Until there is more general agreement among marketing analysts themselves in Canada and in most other commercially advanced countries as to the most meaningful presentation of the national accounts' data for an overall appraisal of market conditions, it is perhaps appropriate to confine the analysis for the present to conventional national accounts' concepts. The advantage of this approach is the growing familiarity of the national accounts as presently in use and the comparability of some of the conclusions about past growth and growth prospects with conclusions reached in other studies with respect to both Canada and other countries abroad.(1) Hence the analysis that follows is in terms of the gross national product and gross national expenditure. The latter is sometimes loosely referred to in the following text as being indicative of the size and changing composition of the Canadian market. This is an over-simpliciation of the actual situation for, as has been explained earlier, there is a domestic market for both Canadian and imported goods and services and a foreign market for Canadian-produced goods and services (including imported raw materials and parts). The purpose of presenting what of necessity is a simplified overall appraisal of the changing Canadian market pattern is to provide the reader with some general background information and an indication of the potentialities

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(1) See, for example, Markets After the Defence Expansion, U.S. Department of Commerce, Washington, 1952.

of the Canadian market. The task of applying whatever use this background information may have to actual business problems and of adapting the tools of marketing analysis to specific commodities and aggregates is one that rests with the reader.

Basic Forces Shaping the Canadian Market

Four basic forces operating over several centuries have been most influential in shaping the Canadian market pattern as it is known today: the vastness of the land, the climatic limitations of a northern country, the nature and distribution of resources, and the attitudes and preferences of the people.

(1) Vastness of the Land. Since a major portion of Canada's land area is not suitable for agricultural settlement, this has had the effect of most of this country's population concentrating in some regional pockets. Only a small proportion - about one-quarter of the total - is spread out thinly across the whole continent, some 4,500 miles from the most easterly point in Newfoundland to the most westerly point in British Columbia. To make Canada viable, the country had to develop a vast network of means of transportation and communication. The construction and the operation of this network, in turn, has represented a heavy overhead burden on the nation. Even though Canada's population has been rising rapidly, particularly in recent years, and the overhead burden has diminished somewhat on a per capita basis as the Canadian market grew, the transportation and communication costs still add considerably to the costs of doing business in Canada, particularly if the business is national in character. Similarly, costs of government administration are spread over a comparatively small population in relation to land area, and, consequently, per capita expenditures are high (see also section on government market).

(2) Climatic Conditions. Canada being a northern country faces many adversities from the weather. This has tended to delay economic development in certain fields for many decades. For example, in agriculture, it was not until an early-maturing strain of grain was developed at the beginning of the twentieth century that agricultural settlement in the Prairie Provinces could be commenced on a large scale. It was not until

human ingenuity created such modern and expensive equipment as the 25-ton bulldozer, the newest in large capacity trucks and the latest types of diesel shovels and electric drills, as well as such aids as the megnetometer, geigercounter, and the aircraft camera, that the rich resources of Canada's northland could be tapped. Technological progress had a lot to do with overcoming the adversities of climatic and geographic hazards.

The discovery and development of natural resources, in turn, has influenced to an important extent the Canadian market pattern: (a) It determined the composition of exports, about 90 per cent of which are now based on the sale of Canadian-produced natural resources, either in raw or in processed form; (b) It opened up new domestic markets, particularly in the three Prairie Provinces but more recently in the northern areas, where earlier there had been nothing but wilderness scarcely touched by wandering Indian tribes or venturesome Canadian fur trappers.

But agriculture and northern development are not the only aspects of the economy affected by climatic limitations. Construction and lumbering operations in this country are also seasonal operations. Inland harbours are frozen in the wintertime, restricting water transportation. Fog, storms and ice may limit air transportation. Even with important technological advances, inclement weather remains a bottleneck in transportation, and this would tend in the direction of increasing the necessity to hold greater inventories than might otherwise be necessary. Cold weather and the necessity to move commodities over long distances affect the manner in which articles are packaged and shipped. Seasonal occupations mean greater purchasing power for Canadians at one time of the year than at other times and this, in turn, affects the volume of sales to the domestic market. A northern climate affects also the character and type of commodities which Canadians want to buy, more warm clothing, better insulated housing, and heavy fuel purchases.

(3) Canada's Natural Resources. Bountiful as these have turned out to be, because of nature and location, they could only be developed with great effort, technological skill and in most cases large capital expenditures by private enterprise and government. There were three major stumbling blocks:

(a) The fact that many resources were land-locked awaiting the building of railways and other means of transportation before they could be tapped. The northern frontier proved to be even more stubborn than the western frontier, requiring all the genius and determination that human nature could muster and all the scientific and technical equipment that the human mind could create to wrest from the land of the north the vast resources that have been and continue to be uncovered under ice, rock, water and muskeg. The development of non-ferrous metals deposits in Northern Ontario and Quebec is an example of this.

(b) The fact that many resources could be developed only after scientific discoveries and advances in technology of production had been made. The combination of large timber resources and the development of hydro-electric power made Canada a leading newsprint producer in the 'twenties. The tar sands of Alberta still await the discovery of an economical method of extraction.

(c) The fact that vast resources, because of distant locations and the difficulties presented in extraction, could only be developed economically on a large scale. But large-scale production was only justified if extensive and continuing markets could be found for the wealth the Canadian earth held. Since the domestic market was small, many natural resources could be developed only if dependable export markets could be found.(1) These were in fact found but sometimes a good deal of patience was necessary. Markets materialized in the case of wheat and other grains in the first decade of the twentieth century, newsprint and non-ferrous metals particularly after World War I, with the latter given an added spurt by the military exigencies of World War II, the international reconstruction and development needs following World War II, and the rearmament programme after the outbreak of the war in Korea. In more recent years, declining reserves of United States high-grade iron ore have induced this country to turn increasingly to Canada as a supplier. The arrival of the atomic age has

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(1) There are exceptions to this, e.g., in oil and natural gas, where the rapid growth and increasing industrialization of the Canadian economy has provided ample opportunities to absorb domestically most of the newly found resources.

focused world attention on Canada's large deposits of high-grade uranium.

It was not until Canadians could develop efficiently on a large scale their varied natural resources and sell them at competitive prices both at home and abroad that they were able to raise their real incomes to the current high levels. But for high disposable cash income per capita, the Canadian market would now be much smaller.

(4) Make-up of the People. The attitudes, background, loyalties and philosophy of life of the Canadian people all have played an important part in shaping the pattern of the market. Because the Canadian people are a product of a large variety of cultures and traditions, there are significant differences in their mode of life and preferences. In fact, Canada's domestic market is not as homogeneous as it is frequently made out to be. Rather, it is the sum of a number of varying regional and local markets. This is something that Canadian firms operating on a national scale have discovered: People in Quebec City will have different tastes than people in Toronto. And the latter's preferences will, again, vary from those of consumers in Winnipeg and Vancouver.

The question arises whether there are some broad general characteristics of Canadian attitudes which influence development and the market pattern. One such common characteristic that is most frequently mentioned is the conservative nature of Canadians and their cautious way of doing things. As notable an authority as Dr. W.A. Mackintosh, the principal of Queen's University, raises some interesting questions as to the general validity of such an assertion, particularly if it is examined against the Canadian environment: "In the world outside Canadians have the reputation for being cautious, or even over-cautious. They may even be considered a little slow. In fact, however, the historical evidence is overwhelming that in terms of their environment the opposite has been true. The extension of boundaries, the building of railways, the setting up of the machinery of government, the machinery for the administration of justice, have always tended in Canada's history to outrun the limits of settlement. In the course of United States history there were periods when it was difficult for the apparatus of transportation and government to catch up with the rapidity of settlement. In contrast, Canada went through long periods of waiting for the possibilities of settlement to catch up with the projects which had been set out for government and for economic expansion. The bases of economic development in the northern half of the continent have disclosed themselves slowly and reluctantly. Opportunity waited on technical development and on world markets. Plans and organizations have frequently been far ahead of opportunity."(1)

Opportunities to Do Business. Another concept widely accepted by foreign business firms interested in exporting to Canada is that this market is a very selective one, difficult to enter and hard to cater to. It is true that Canadians, living next to the United States, have been influenced to a great extent by the high living standards prevailing in that country. Further, Canadians have comparatively high incomes, making it possible for them to demand goods of high quality with prompt service. Canadians also believe in a competitive system. They expect to buy in the free markets of the world at the best possible price. In relation to the size of their market, Canadians depend heavily on purchases abroad - close to one-quarter of the gross national expenditure goes for imports of goods and services. Hence, the opportunities for foreign businessmen to sell in the Canadian market are varied and plentiful. But the opportunities that do exist can be grasped only by aggressive salesmanship and by the efficient coverage and service of the market. This, again, cannot be done from a distance but requires continuous on-the-spot efforts. There is then some doubt whether Canadians are always as conservative as reported, or as hard to sell to as is sometimes made out. If there is a common characteristic in the attitude of Canadians in doing business, it is one that is also found in many other countries: The approach of a Canadian wanting to make a purchase is a practical and down-to-earth one. He wants to be convinced that he gets proper value for what he purchases; he wants to be sure that he will get speedy delivery and that he will be provided with the necessary service so

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(1) W.A. Mackintosh, "The People and Their History" in Canada: Nation on the March, Toronto, 1953, pp. 17-18.

as to minimize any inconvenience arising out of mechanical breakdowns or other causes. In essence, the Canadian customer, being by world standards fairly wealthy, is also a "demanding" customer who expects businessmen to cater to his whims and preferences. If this basic attitude of consumers is understood, catering to the Canadian market may not be as hazardous and difficult for the efficient businessman as is sometimes claimed.

Characteristics of the Canadian Market

The process of growth and of changes in the pattern of the market is a continuing one. Still, in its present stage of development, a number of features give the Canadian market its distinctive characteristics - distinctive in the sense of the combination of these traits. Many of the features are common also to the markets of other lands, though the characteristics may differ, giving each country its own distinctive market pattern.

Similarities of Canadian and U.S. Markets. For example, there are many similarities between the Canadian and American markets. The United States is the leading industrial nation of the world, providing a level of real income and a standard of living for its citizens that is unmatched. Real incomes per worker and standards of living in Canada are second only to those in the United States. Many Canadian industries either match, or nearly match, American firms in the efficiency and complexity of their operations. Both countries are blessed with an abundance of natural resources, energetic people willing to make great use of what they have, and a system of government which emphasizes the freedom of the individual and encourages private enterprise. Like the methods of producing, methods of selling in Canada and the United States are similar in many respects, as are the means of persuading the sometimes willing and sometimes unwilling customer to buy - through display, advertising and the sales agent.

Differences Between Canadian and U.S. Markets. But there are also important differences in the make-up and operation of the Canadian market as compared with that of the American. To mention three such distinctive characteristics:

There is first the difference in size. Canada's population of about $15\frac{1}{2}$ million is just one-eleventh that of the United States. With

American industry technically the most advanced in the world, United States national output is correspondingly greater, about sixteen times that of Canada. Since the expanse of this country is larger than that of the continental United States, it means that Canada is much less densely populated than her neighbour - even though most of her people live on the southern fringe of the country. Serving the Canadian market, therefore, means - speaking in overall terms and not necessarily for specific areas or firms - a much more thinly spread system of distribution and accordingly higher overhead per capita.

Secondly, there are great variations in the dependence on foreign trade. Close to 25 per cent of the value of the Canadian national output is exported, against some 5 per cent in the case of the United States. This means that Canadian prosperity, and with it the ability of Canadians to buy in the home market, is influenced in no small measure by what may happen to the economies of the countries to which they sell. The United States is much less dependent for domestic prosperity on foreign demand. Further, the requirements of the Canadian market are met to a much greater extent by buying abroad than is the case with the American market. In fact, Canadians buy abroad almost five times as much in relation to their gross national product as do Americans. Thus, Canada is much more vulnerable to changing supply and price conditions in foreign countries than is the United States. If there are shortages abroad, there may be scarcity of certain commodities in the Canadian market. If foreign prices are rising, they may over a comparatively short period be felt by the Canadian consumer. Because Canada is a free market economy, inflationary tendencies transmitted through rising import costs will permeate the whole economic system, making it difficult to avoid a significant rise in domestic prices - except in cases of emergency like World War II when a broad array of control measures was required to minimize the impact of imported inflation. In the United States most inflationary pressures are generated domestically. Rising prices, particularly of raw materials imported into the United States, are a factor but their impact is of much lesser significance for the U.S. market than for the Canadian.

Thirdly, there are some differences in the importance which the two countries attach to the role of marketing in the national economy. It was mentioned earlier that the productive capacity of the United States is the greatest in the world. This means that the same number of people will produce more goods per man hour or man year than workers in any other country. The implication is that somewhat greater efforts are required in the United States to sell the nation's output than in other countries. Greater efforts involve not only comparatively more business executives, advertising people and salesmen, but also greater resourcefulness in devising successful selling techniques that will persuade people to buy that tremendous output.

A few figures will illustrate the point: in mid-1954 about 25 per cent of the civilian labour force in both countries was engaged in manufacturing operations. But because American industrial production per worker is considerably greater than Canadian, comparatively more people were required in the United States to sell the nation's output, 17 per cent (in wholesale and retail trade) of the civilian labour force as against 15 per cent for Canada. That selling in the United States requires greater effort and brings greater rewards is also indicated by the fact that 17 per cent of the national income goes to American wholesalers and retailers. In Canada the proportion is 14 per cent (national income figures relate to 1953). A similar story of greater efforts in the United States can be found in a comparison of per capita expenditures on advertising, marketing research and many other endeavours that go with mass selling or planning for future sales expansion. These differences are particularly noteworthy since they are contrary to the expectation that a country with a more thinly-spread population, such as Canada, would require a greater sales force to market the nation's output.

Over the last half a century, however, Canadians have made great strides in increasing their sales efforts. In 1901, for example, about 9 per cent of the labour force was engaged directly in marketing, against the current proportion of 15 per cent. Even more significant, the number of production workers in Canada (covering manufacturing, construction, agriculture and other primary industries) rose since the turn of the century by an average of 1.48 per cent per annum (compound) while the number of wholesalers and retailers and the people they employ increased at an annual average rate of 3.11 per cent (compound).

While the difference in the market patterns of Canada and the United States should not be over-emphasized - for geography and history have been strong moulding forces on the North American Continent - it is sufficiently great for the alert businessman and the experienced marketing analyst to study carefully the distinctive features of the Canadian market in efforts to formulate appropriate production, sales and advertising programmes. Only thus are they likely to avoid disappointment and the making of costly mistakes, or at least minimize their incidence.

Since this is an introductory chapter, the distinctive characteristics of the Canadian market cannot be discussed fully nor in detail. But three of the more important features can be summarized briefly: (a) dynamic market of a predominantly private enterprise type, (b) heavy dependence on exports and imports, (c) regional and local variations and changes in the urban-rural pattern.

Dynamic Market. The Canadian market is a dynamic market of a predominantly private enterprise character. One of the major tests of whether a market is dynamic is to consider its rate of growth and the regularity with which economic expansion occurs over a long period of time.

Now here is the way the Canadian market has grown in real terms between 1900 and 1953.

In 41 years out of 53 it has expanded; in 10 years it has declined; and in 2 years it has shown little change (less than one-half of one per cent). Only on one occasion in this century did the Canadian market shrink in size continuously for a period of four years, from 1929 to 1933. In the other instances, six altogether, the contraction of the market lasted approximately 12 to 18 months, rarely reaching 24 months.

In absolute terms the largest single contraction of the Canadian market in any one year (as reflected in gross national expenditure) involved a drop of about one billion dollars in 1921. The most rapid expansion took place in 1951 when gross national expenditure rose by $3-1/3 billion. Allowing for changes in the general price level, the decline in 1921 and the increase in 1951 both amounted to about a 7 per cent change in volume.

Notwithstanding the interruptions in the long term growth of the Canadian market, the rate of expansion over the last half a century has been most remarkable. The market has grown at an annual average rate of 3.62 per cent (compound)(1) in real terms. Canada's population during the same period, as indicated later, grew at an annual average rate of 1.95 per cent (compound). This means that a little more than half of the growth in the Canadian market has been due to population increase and a little less than half to rising per capita incomes.

In 1900 the Canadian market involved sales of around $1 billion. In 1953 the market exceeded $24 billion. If allowance is made for price changes, the record suggests that the Canadian market has about doubled in volume terms every 20 years over the last half a century.

Private Enterprise Market. The factors that have contributed to its rapid, though somewhat uneven growth, are further elaborated in the section that follows. But an important aspect of this subject can be indicated now: one of the main motivating forces in the development and expansion of the Canadian market has been the decisions of private individuals and corporations to go ahead with the development of resources, with the erection of manufacturing plants, and with the opening of new businesses. While governments have encouraged economic expansion and facilitated the opening up of the country, it has largely been private initiative and individual risk-taking that have created the wealth and the high standards of

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(1) The compound rate is a measure of the rate of change, usually employed to indicate changes over long periods of time. To indicate changes over short periods of time, frequently simple rates of annual change are used, but their use over longer periods of time is apt to distort the relative pattern of growth or decline. A simple rate of annual change is determined by dividing the percentage difference between the initial value and the terminal value by the number of years intervening. A compound rate differs from a simple rate in that the initial value is increased or decreased each year by the annual growth or decline which has occurred. Thus, the compound rate of change for a year is determined with reference to the value in the preceding year rather than with respect to the value at the beginning of the period. The following formula is employed in computing compound rates of percentage change: $(1 + r)^n = \frac{S}{P}$, where r = compound rate; n = number of years; S = value at the end of the period; P = value at the beginning of the period.

living which Canadians now enjoy. Yet it is a paradox that the basically private enterprise character of the Canadian economy has been a factor contributing to the variations in the rate of growth in Canada's economy. Individuals and private corporations consider the economic opportunities offered by changing domestic and foreign markets better at some times than at others, and it is natural that their assessment of the business outlook leads them to expand operations on some occasions and contract them on others.

The following figures are illustrative of the fact that most of the decisions affecting the Canadian economy are in private hands: 82 per cent of Canada's gross national expenditure of $24.4 billion in 1953 was made by the private sector, 18 per cent by the government sector. This latter proportion was made up of 10 per cent of payments to private industry working on government orders, with the remaining 8 per cent consisting of wages and salaries paid to persons in the direct employ of federal, provincial and municipal governments.(1) As to investment, private capital expenditures accounted for 73 per cent of the total of $5.7 billion in 1953, 27 per cent represented public investment. This proportion consisted of 9 per cent representing capital spending by publicly-owned business corporations, e.g., Canadian National Railways, Trans-Canada Air Lines, and Hydro-Electric Power Commission of Ontario, 14 per cent capital outlays by federal, provincial and municipal government departments and 4 per cent for new investment by government-operated institutions and on housing for military and government personnel.

Role of Government. The role which the Canadian Government is playing in encouraging a continued expansion of the economy, particularly in the more recent period, has been described by the Minister of Trade and Commerce in the following terms:

"Since the end of World War II, the Canadian Government has made a conscious and deliberate effort to influence the rate and direction of economic and industrial growth in Canada. In the main, its policies have

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(1) Interest payments on the national debt included under government expenditures on goods and services comprised a fraction of one per cent and is included in the proportion of 18 per cent, mentioned above.

been directed to creating a favourable economic climate in which individual initiative thrives and businessmen are encouraged to expand their capital facilities to cater to growing domestic and foreign markets.

"When we were faced with problems of rearmament and inflation, the Government was quick to introduce measures which encouraged essential expansion, and discouraged expenditures with a lower national priority. But, except in such special circumstances, the main emphasis of the Canadian Government was directed toward helping private enterprise to do a good job. For we in Canada believe that in the long run this is the most effective way to increase the wealth of a country and of its individual citizens."(1)

To allow free market forces in Canada a maximum play, while at the same time attempting to avoid severe economic fluctuations, the objective of government economic policy has been stated to be: "to promote continuing expansion and to discourage inflation" and to avoid "artificial stimulation of non-competitive industries even when there seemed to be short-run advantages in providing that stimulation." The basic philosophy behind the Canadian Government's efforts to assist in a proper functioning of a largely private enterprise system has been expressed in these terms:

"If businessmen are persuaded that the Government is working with them rather than against them, if they are persuaded that the Government is doing everything in its power to help in finding new markets abroad and to promote the sound growth of the Canadian market, I believe they will be encouraged to take risks. It is no accident that Canada is regarded as a preferred area for foreign investors."(2)

The dynamics of the Canadian market suggest two things to the young man embarking on a business career in this country: (1) the Canadian market is likely at least to double in size during his lifetime; (2) judging from past experience, the long term chances of an expanding as against a contracting market may be four to one.

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(1) Address by the Right Hon. C.D. Howe, Minister of Trade and Commerce, to the Dalhousie Alumni Association, Halifax, N.S., February 28, 1955, p. 5.
(2) Address by the Right Hon. C.D. Howe, Minister of Trade and Commerce, Canadian Club of Toronto, April 5, 1954, on "The Role of Government", pp. 5 and 6.

Dependence on Foreign Trade. The prosperity of the Canadian economy depends to an important extent on the maintenance of a high level of foreign trade. A number of natural resources because of location or character can only be developed if they can be produced in large quantities and sold to markets considerably larger than the Canadian. This is true for agricultural products such as wheat, as well as industrial raw materials such as iron ore and non-ferrous metals. Other reasons why Canada is a major exporting nation are proximity to the great markets of the United States, and the comparatively low cost of shipping many of Canada's products to the heavily populated and highly industrialized areas of Western Europe, and more latterly to the rapidly developing areas of the Far East.

The importance of foreign markets to the maintenance of a high level of economic activity in Canada is illustrated by the fact that exports of goods and services represent close to one-quarter of the gross national product in Canada. In 1953 the actual proportion was 22.3 per cent, exports of goods accounting for 17.7 per cent and exports of services (e.g., expenditures by tourists, dividend payments, shipping and insurance services, etc.) for 4.6 per cent. As Table 3 suggests, the proportion of total exports to gross national product may vary a good deal over time.(1) Exports were of lesser importance to the Canadian economy at the turn of the century than now. But they became more important in the 'twenties, and they declined in significance in the 'thirties. During World War II Canada shipped large quantities of raw materials and military equipment to her allies and as a result exports were responsible for a much greater proportion of her gross national product. The decline in the proportion of total exports to gross national product indicated in the post-war period is a reflection of the fact that the domestic market rose even more rapidly than export markets.

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(1) Except where otherwise stated, the gross national product, gross national expenditure and component estimates for the period 1926 to 1953 referred to in this chapter are from the national accounts publications of the Dominion Bureau of Statistics. Earlier data are preliminary and are from "Canada's Economic Development, 1867-1952", study prepared by O.J. Firestone for the Third Conference of the International Association for Research in Income and Wealth, Castelgandolfo, near Rome, Italy, September, 1953.

TABLE 3. - EXPORTS AND IMPORTS OF GOODS AND SERVICES AS A PROPORTION OF GROSS NATIONAL PRODUCT, CANADA, SELECTED YEARS, 1900-1953

Year	Per cent of Gross National Product	
	Exports of Goods and Services	Imports of Goods and Services
1900	19.7	23.7
1920	30.0	34.9
1929	26.3	31.4
1939	25.5	23.3
1945	30.5	24.7
1953	22.3	24.1

TABLE 4. - EXPORTS AS A PROPORTION OF PRODUCTION AND IMPORTS AS A PROPORTION OF CONSUMPTION, SELECTED COMMODITIES, CANADA, 1953

Commodity	Per cent
Exports as a Proportion of Production	
Nickel	100.0
Asbestos	96.3
Newsprint	94.0
Zinc	88.0
Aluminum	87.8
Lead	83.5
Gypsum	73.6
Copper	72.8
Wheat and Flour	56.3
Sawn Lumber	50.5
Imports as a Proportion of Consumption	
Iron Ore	80.8
Raw Wool	73.0
Coal	60.8
Crude Petroleum	53.0

The fact that Canada is exporting the bulk of her production in a number of commodities is illustrated in Table 4. In 1953, for example, all the nickel produced in Canada was exported - Canada's own comparatively small requirements were met out of inventories; 96 per cent of asbestos was exported, 94 per cent of newsprint, and so on down to 51 per cent of the total lumber sawn in Canada. In wheat (and flour) Canada exports, as a rule, something like two-thirds of her output. In 1953, because of a record crop, inventory holdings of wheat rose rather notably and the proportion of wheat exported to total production dropped below the long-term average to 56 per cent of production.

In most years Canadians import more than they export, the difference usually being met by capital imports and on occasion by a drawing down of foreign exchange holdings. At times, however, exports have exceeded imports by a considerable margin, such as in the period of World War II and the immediate reconstruction period when Canadians made large shipments abroad to help other countries in their reconstruction and rebuilding efforts. In 1953 imports of goods and services represented 24.1 per cent of the gross national product, 17.3 per cent being made up of imports of goods and 6.8 per cent of imports of services. In overall terms, the role of imports in the economy has not changed very much over the last half a century, the proportion having been 23.7 per cent of gross national product in 1900. However, there were significant changes in the role of imports in the interim, particularly in the 'twenties. In 1920 a more rapid rise in import than domestic prices drove up the ratio to a high of 34.9 per cent. Even after prices had come down in the latter part of the 'twenties, imports remained at a very high proportion of gross national product, the ratio being 31.4 per cent in 1929. Heavy imports of capital equipment was one factor contributing to the high volume indicated for 1929.

The reasons why the Canadian market has been, and continues to be, supplied to an important extent by imports from abroad include: there are a number of commodities which are not indigenous to Canada, e.g., raw cotton, natural rubber, citrus fruits, coffee and bauxite. Then there are other items which cannot be produced here as efficiently as they are abroad.

Frequently the reason is the comparatively small size of the Canadian market, which makes it difficult to apply mass production techniques. In other cases lower wage costs may be a factor. The geographic location of both the source of supply and the market may have a good deal to do with determining the volume of imports. For example, Canada imports substantial quantities of iron ore while at the same time she is becoming a growing exporter of iron ore. As Table 4 shows, Canada imported 81 per cent of her total domestic consumption of iron ore in 1953. Other items brought into Canada in large quantities even though domestically produced include raw wool, coal and crude petroleum, though the latter will diminish in importance as the distribution of Alberta oil production becomes more widespread.

From a marketing point of view, heavy dependence of the economy on a high level of foreign trade has two important implications:

(1) Declining levels of exports mean not only shrinking revenue from foreign sales of Canadian products and services but also a reduction of domestic employment and income, which in turn may have a detrimental effect on the size of the domestic market to which Canadian businessmen and importers cater. Similarly, an increase in the volume of export business will increase the opportunities for businessmen to do well in the Canadian market.

(2) Canadian prices are as a rule affected a great deal by foreign price trends. If prices abroad rise steeply, Canadians feel the impact almost immediately because these higher prices are transmitted to the economy through the large volume of imports. Similarly, if world prices of goods produced in Canada rise, the only way - that is, without government control - that Canadians can retain at home a sufficient volume of these commodities is by meeting the prices that these goods command in world markets. Hence, both a large volume of exports and of imports makes it well nigh impossible for Canada to shut herself off from the effects of inflationary trends developing among her major customers and suppliers. There are exceptions to this situation as, for example, the World War II period when strict supply, price, wage and foreign exchange controls enabled Canadians to ward off temporarily many of the effects of a general rise in prices abroad.

Regional Variations. The point has been made that the Canadian market is not homogeneous but an aggregate of different regional and local markets. This theme is elaborated in subsequent chapters in this book. Here by way of introduction a few of the highlights might be mentioned.

About three-fifths of Canada's population, which in 1955 exceeded 15½ million, live in the central provinces of Ontario and Quebec. Close to one-fifth live in the three Prairie Provinces, Alberta, Saskatchewan and Manitoba, with the remaining one-fifth in the coastal provinces on the Atlantic and Pacific Oceans. British Columbia's population represents about three-quarters of that of New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland combined.

But it is not just the differences in the density, traditions and tastes of Canada's people that have contributed to variations in regional market conditions. An important additional factor has been differences in earning opportunities which have made possible the achievement of somewhat higher average standards of living in some areas than in others. For example, in 1953 personal income per capita was highest in Ontario, $1,465, followed by British Columbia, $1,446, and Alberta, $1,283. As Table 5 shows, Quebec, Canada's second most populous province, ranked sixth with a per capita income of $1,038.

Though income differentials have affected buying habits in the various parts of Canada, there does not seem to exist a perfect conformity between incomes and sales. For example, per capita retail sales in 1953 were higher in British Columbia, $996, and Alberta, $971, than in Ontario, $943, though incomes were higher in the latter. However, in Quebec where per capita incomes had been running a little above two-thirds those of Ontario residents, retail sales per capita were correspondingly lower (see Table 5).

Consumer preferences will determine the regional make-up of the total market. For example, notwithstanding the fact that Ontario ranked third in retail sales per capita in 1953, it was first as a buyer of motor cars on a per capita basis. Radios per thousand population were most numerous in the province of British Columbia, followed by Alberta and Manitoba,

TABLE 5. - POPULATION, PERSONAL INCOME AND RETAIL SALES PER CAPITA, PASSENGER CAR SALES AND HOUSEHOLDS WITH ELECTRIC REFRIGERATORS, ELECTRIC WASHING MACHINES AND RADIOS PER THOUSAND POPULATION, CANADA, 1953-1954

Province	Population[1]	Per Capita		Per Thousand Population			
		Personal Income[2]	Retail Sales[2]	Passenger Car Sales[2]	Households[3] with		
					Electric Refrigerators	Electric Washing Machines	Radios
	000	$	$				
Newfoundland	383	650		10.7	31.3	75.7	190.6
Prince Edward Island	106	632	593	13.7	66.0	113.2	207.5
Nova Scotia	663	896		17.6	125.2	182.5	221.7
New Brunswick	536	757		18.3	95.1	158.6	207.1
Quebec	4,269	1,038	652	16.1	170.1	186.5	217.4
Ontario	4,897	1,465	943	32.3	224.4	224.8	258.7
Manitoba	809	1,138	834	23.8	192.8	205.2	262.1
Saskatchewan	861	1,279	949	27.9	97.6	146.3	253.2
Alberta	1,002	1,283	971	29.0	154.7	188.6	273.5
British Columbia	1,230	1,446[4]	996	26.7	204.1	222.0	281.3
Canada	14,781[4]	1,224[4]	818	24.3	177.8	196.4	243.8

Source: Dominion Bureau of Statistics.

(1) As of June 1, 1953.
(2) Data relate to the year 1953.
(3) As of September 1954.
(4) Includes Yukon and North-west Territories.

with Ontario fourth in rank. Electric washing machines and refrigerators per thousand population were more numerous in Ontario, British Columbia and Manitoba, while in such predominantly rural provinces as Saskatchewan and Prince Edward Island they were substantially below the national average. Rural electrification in these provinces while progressing rapidly is still not sufficiently far advanced to enable as much use of electrical equipment as in the more urbanized provinces (see Table 5).

The data illustrate the situation in a given year, 1953. There would, of course, be differences from year to year, but, by and large, variations in income levels have been and continue to be a major influence in determining the size and character of regional markets.

Local Variations. What is true for regional markets is also true for local markets. Income levels will vary widely between cities. Per capita incomes (declared for income tax purposes) in Toronto are almost three times those of Quebec City, and in Calgary they are about twice those of Saint John, New Brunswick (see Table 6).

The fact that people have higher incomes in one city than in another does not necessarily mean that they will spend more. For example, the five metropolitan cities with highest reported incomes include (in order of importance): Toronto, Calgary, Edmonton, Hamilton and Ottawa. But the order of the highest spending cities, in terms of retail sales, per capita, is somewhat different: Calgary, Edmonton, Toronto, London and Vancouver (see Table 6).

Differences in spending and savings habits in the various cities will have a good deal to do with the success which businessmen may have in persuading consumers to part with their money. Technological innovations arriving at different times will be another factor, e.g., television. Other influences include variations in the trend towards suburban living, preferences for home ownership against rental accommodation, changes in merchandising methods, e.g., the arrival of a new department store or the opening of a shopping centre, different sets of values placed on conspicuous consumer spending, that is, keeping up with the Joneses, etc. Still, the fact remains that income levels are an important determinant of the size of the

TABLE 6. - INCOMES AND RETAIL SALES PER CAPITA, FIFTEEN METROPOLITAN CITIES, CANADA, 1951 AND 1952

Metropolitan Centres	Per Capita Income Declared for Income Tax(1) $	Per Capita Retail Sales(2) $
St. John's (Nfld.)	624	953
Saint John	683	790
Halifax	725	919
Quebec	543	708
Montreal	1,010	869
Ottawa	1,115	892
Toronto	1,450	1,114
Hamilton	1,198	985
London	1,030	1,077
Windsor	1,040	922
Winnipeg	1,030	997
Calgary	1,294	1,309
Edmonton	1,243	1,207
Vancouver	1,093	1,070
Victoria	1,009	983
Average for Fifteen Centres	1,108	982

Source: Population and retail sales data from Dominion Bureau of Statistics, income declared for income tax from Taxation Statistics 1954, Department of National Revenue.

(1) Data relate to 1952.
(2) Data relate to 1951.

market. Knowledge of income levels and income differentials is, therefore, an essential tool in any appraisal of the varying market prospects for particular regions or particular localities.

Changing Urban-Rural Pattern. Marketing methods in Canada have been greatly influenced, among other things, by changes in the urban-rural composition of the population. At the beginning of the twentieth century, a little over one-third of Canada's population lived in urban communities. The remainder lived either on farms or in other rural settlements. By the middle of the twentieth century, the situation was about reversed. Over the long term Canada's farm population has declined consistently, despite some temporary interruptions as a result of a back-to-the-farm movement in periods of depressed economic conditions. By 1921 Canada's farm population was still 37 per cent of the total population, but by 1951 it was down to 20 per cent.

How Has the Canadian Market Grown?

Varying Rates of Growth. The Canadian market absorbed a total of over $24 billion in goods and services in both 1953 and 1954. In volume terms, this is over six times the market Canadians knew in 1900. As has been indicated earlier, this implies that over the last half a century the market grew at an annual average rate of 3.62 per cent (compound). This is equivalent to an annual expansion in the Canadian market of close to $900 million in 1953 prices. (For details covering the period 1900-1953, see Table 13 at the end of this chapter.)

Market as a Whole. The picture of growth which the Canadian market represents is one of rapid expansion generated by population increase, growing urbanization, speeding up of resources development, establishment of new industries, the opening up of new sales opportunities abroad, and rearmament efforts in periods of hot and cold wars. Examples of periods of rapid expansion, besides the two world wars, are the first decade of the twentieth century, when the Prairie Provinces were quickly settled and grain growing established on a large scale, and the period following World War II marked by efforts to expand and consolidate those industrial gains made during the war and to develop a multitude of natural resources, some newly-discovered, others made profitable of development by expanding markets and improved methods of exploitation.

There were also times of slow growth, or a levelling off in economic activity when some of the special stimulants making for rapid expansion were largely absent as, for example, the period from the beginning to the middle of the 'twenties. Finally, there have been periods when the Canadian market has contracted, in most cases for a matter of months, in others for a matter of years, as, for example, in the early 1930's.

Varying rates of growth and temporary contractions in the Canadian market are illustrated in Table 7. The Canadian economy expanded most rapidly in overall terms during World War II, as indicated by the growth in the gross national product averaging 8.64 per cent per annum (compound). The period of the most pronounced contraction took place in the early 1930's when in the short space of four years the Canadian economy declined in size at an annual average rate of 9.05 per cent.

It is interesting to note that the growth of the Canadian market in the post-World War II period, though unsurpassed in absolute terms, was actually slightly behind the expansion in the first two decades of this century and in the 1920's in relative terms, the more recent annual rate of increase (in terms of gross national product in constant dollars) amounting to 3.30 per cent as compared with 3.75 and 3.74 per cent, respectively, for the two earlier periods.

There are, of course, good reasons why the expansion of the Canadian market was more rapid during the World War II than in the period which followed. There was a great deal of slack in the economy when war commenced in 1939 but this was quickly absorbed as the demand for industrial raw materials, foodstuffs and industrial products as well as military personnel mounted rapidly. When the war ended there was little slack to meet the heavy requirements arising from Canada's desire to help in the reconstruction of war-devastated economies and to satisfy the strong backlog in the demands of Canadian businessmen and consumers as they endeavoured to compensate for the many years of under-spending. Hence the fact that the economy did not grow as rapidly in the immediate post-war period as in the

TABLE 7. - VARIATIONS IN THE RATE OF ECONOMIC GROWTH, IN REAL TERMS, CANADA, SELECTED YEARS, 1900-1953

Percentage Increase or Decrease

Period	Population	Expenditure on Consumer Goods and Services	Gross Domestic Investment	Government Expenditure on Goods and Services	Exports of Goods and Services	Gross National Expenditure	
						Total	Annual Average (Compound)
1900-1920	61.4	89.0	197.7	183.6	211.0	108.8	3.75
1920-1929	17.2	32.8	64.2	65.1	85.3	39.1	3.74
1929-1933	6.0	-17.1	-89.5	-15.9	-25.3	-29.3	-9.05
1933-1939	6.0	25.0	593.3	40.3	52.1	50.2	6.28
1939-1945	7.1	43.2	-41.1	279.2	70.5	64.5	8.64
1945-1953	22.4	42.7	335.8	-23.3	-4.0	29.8	3.30
1900-1953 Annual Average Increase (Compound)	1.95	3.20	4.26	5.39	4.58	-	3.62

preceding six years was due to the physical limitations standing in the way of increasing output to meet the demand that was developing rather than to any insufficiency in that demand. Hence, for a good part of the post-war period the problem was one of inflation rather than lack of demand.

The point to remember is that the market may at times grow fairly slowly because there is insufficient demand to make full use of available resources and capacity. But it may also grow comparatively slowly simply because the economy is operating at full or near-full capacity and growth is slowed by physical limitations rather than an inadequate volume of potential sales. Hence, the absolute growth of the Canadian market in any given year, or even the rate of growth of the Canadian market over a short period of time, may not be too meaningful per se. One needs to look at the underlying economic forces which shape the pattern of the Canadian market and determine its rate of change over a period of several years.

Market Sectors. Not only is the market as a whole growing at varying rates, but so are its major components. Distinguishing four major markets, consumer goods and capital goods sold to Canadian residents, products sold abroad, and goods and services sold to governments, it is the government market that has risen more rapidly during the period 1900 to 1953, at an annual average rate of 5.39 per cent (compound). The main reason for this is the growing defence burden which the Canadian economy has had to shoulder. In the federal budget of 1900, defence expenditures were negligible, but in 1953 they represented three quarters of all the expenditures on goods and services made by the Federal Government (see also next section).

The next to grow most rapidly was Canada's export market, at an annual average rate of 4.58 per cent. This overall rate of growth, however, hides the fact that, though in the earlier part of this century Canada's foreign markets expanded more rapidly than her domestic market, this trend has been reversed in recent years (see Table 7).

The domestic capital goods market grew in volume terms at an annual average rate of 4.16 per cent (compound) over the period 1900 to 1953. The domestic consumer goods market moved slowest, 3.20 per cent per annum.

While the consumer market was somewhat slower to expand than the other three types, it showed a great deal of resistance when the Canadian economy faced the shock of the depression in the 'thirties. From 1929 to 1933 consumer expenditures in real terms declined, 17 per cent, just about one per cent more than the decline in government expenditures on goods and services. Exports of goods and services were down 25 per cent and gross domestic investment, reflecting the market for capital goods and inventory investment, was down 90 per cent.

The data in Table 10 illustrate the feast and famine business that industries catering to the capital goods market have faced in the past. Next in degree of vulnerability have been the export industries which depend on the vagaries of foreign trade. Declines in economic activity seem to affect least industries catering predominantly to the consumer goods and government markets. However, except in war periods, when government purchases absorb a very large proportion of the nation's output, industries catering to the consumer and government markets are not likely to expand as rapidly as those satisfying the domestic capital goods markets and those selling abroad. Penalties paid by industries meeting the needs of these two types of markets in the past in the form of sharply reduced sales during periods of serious recession or depression have been more than offset by excellent business opportunities in prosperous periods.

Reasons for Rapid Growth. There are many factors contributing to the rapid though uneven growth of the Canadian market. Two of the major factors include: the increase in population and the rise in real incomes.

As population increases, so does the number of families. In fact, as the data referred to below show, the number of families rose even more rapidly than population, and this had an important effect in changing the pattern of the Canadian market. To throw some light on improvements in income levels, it is necessary to look also at the underlying forces contributing to it. They include increases in the labour force, employment and output. Further, since the volume of sales to the Canadian market is to an important extent determined by the level of real incomes, that is, what Canadians earn in terms of what they can buy, income data have to be examined in relation to price data. Hence the remainder of this section examines in summary fashion: population and families, labour force, employment and output, incomes and price changes.

Population and Families. Canada's population has increased in every year since 1900. The smallest increase in absolute terms was recorded in 1916, involving 44,000 people, the largest in 1952, 392,000. The annual increase, thus, has varied from a fraction of one per cent to 2.7 per cent. Over the 53-year period Canada's population rose at an annual average rate of 1.95 per cent (compound) (see Table 8). Hence, in every year since the turn of the century, there were more mouths to be fed, more bodies to be clothed and more people to be housed. If population had been the sole determinant of business there would have been no interruption in the expansion of the Canadian market over the last 53 years.

This is even more true in terms of the growth in the number of families living in Canada. The net increase in the number of families formed from year to year is of importance to anyone studying the Canadian market because of its special effect on the capital goods and consumer markets. A new family will sooner or later exert pressure on the housing market in the quest for separate housing accommodation, and this pressure may result in an increasing number of homes being built. The setting up of a household in most cases involves the purchase of furniture, appliances, and the multitude of other articles required. A high rate of new families formed also affects the birth rate. More children will mean greater demand for many specialized articles and services. Demand for motor cars seems to be influenced to a more important extent by the number of families in the country than the number of people because of the greater flexibility that the use of a car allows in arranging family affairs.

The number of families in Canada rose from 1.1 million in 1900 to about 3½ million in 1953, or at an annual average rate of 2.22 per cent (compound). The reasons why the number of families in Canada rose more rapidly than population over the last half a century include: the two world wars which induced many soldiers to marry earlier than they would have done under peacetime conditions. Large numbers of military personnel married

TABLE 8. - ECONOMIC INDICATORS OF LONG-TERM GROWTH, CANADA, 1900-1953

Item	1900	1953	Annual Average Rate of Change (Compound)
Population(1) - Thousands	5,301	14,781	1.95
Total Families(1) - Thousands	1,085	3,474	2.22
Labour Force(1) - Thousands	1,861	5,492	2.06
Employed(1) - Thousands	1,787	5,402	2.11
Gross National Product(2) - $ Billion	1.0	24.4	3.62
Gross National Product per Capita(2) - $	195	1,651	1.63
Gross National Product per Person Working(2) - $	578	4,517	1.47
National Income(2) - $ Billion	0.9	19.0	3.55
National Income per Capita(2) - $	170	1,288	1.56
Hours Worked per Week in Manufacturing	56.7	41.3	-0.61
General Price Index	27.9	100.0	2.50

(1) As of June.
(2) Dollar figures in current dollars and annual average rate of increase based on constant dollar figures.

overseas and brought their war brides back after the end of the war. For example, in 1946 and 1947 some 40,000 war brides of members of the Armed Forces who had served overseas entered Canada. The prosperous conditions in the 1920's and in the period following World War II made earlier marriages possible on economic grounds. Furthermore, the possibility of married women continuing to work encouraged many young people to take on the responsibilities involved in founding a home. In many cases they would have found it difficult to accept these responsibilities if the couple had had to rely solely on the income of a young breadwinner starting out near the bottom of the income scale.

Another factor has been the changing pattern of immigration. For example, in the earlier part of the century greater emphasis was placed on unmarried immigrants of working age. In the more recent period the emphasis changed to family immigration, including people too young or too old to work. There are, of course, exceptions to this rule, that the rate of new families formed tends to run ahead of the rate of population growth. For example, during the depressed 'thirties many couples had to postpone marriage, and immigration to Canada was at particularly low levels (for variations in the rate of population growth, see Table 6). But by and large the number of families has increased more rapidly than population per se over the last half a century. Hence, many industries appraising market prospects solely on the basis of existing population and the possibilities for further population growth may underestimate their potential sales, particularly if they are in a business which caters largely to the needs of Canadian families.

<u>Labour Force, Employment and Output</u>. The ability to <u>earn</u> incomes - as distinct from being in receipt of investment income or social security benefits - depends on the ability to find employment or to pursue other gainful occupations, e.g., in agriculture, fishing and business generally and in the professions. Hence, it is important to find out what proportion of the population is in a position to work and wants to work and what proportion actually finds work. The former group is called the "labour force" and the latter the "employed". Not all the employed work full time. Some work voluntarily only part time, e.g., students, married women and older men.

Others work part time of necessity, e.g., because of seasonal lay-offs or because an industry as a result of over-production is forced to cut back operations. The bulk of employed Canadians work "full" time, defined in statistical practice as persons working 35 hours per week or more.

In the June 1954 survey week persons with jobs totalled 5,277,000, two per cent of whom were not at work at all during the survey week, largely because of illness and holiday-taking. Of the 98 per cent who were at work, 91 per cent worked 35 hours or more during the week. The 7 per cent who worked less than 35 hours that week was comprised of 4 per cent part-time workers who normally worked less than 35 hours, and 3 per cent who worked less than their usual work-week of 35 hours or more because they were on "short time", unable to get in a full week's work because of bad weather or illness, were on vacation part of the week, etc. These proportions would vary from season to season as well as from year to year with changing weather and economic conditions.

In 1953 Canada's labour force numbered 5.5 million, of whom about 5.4 million were employed. Over the last half a century the labour force and the number of persons employed has risen at an annual average rate of about 2.1 per cent (compound), slightly ahead of the rate of population increase, 1.95 per cent.

This trend has taken place in spite of various countervailing factors. There has been a tendency towards later entry into the labour force, mainly because of compulsory schooling and greater opportunities for education. There has also been a long-term trend towards earlier retirement from the labour force made possible by rising productivity, as well as more comprehensive retirement provisions made partly by individuals themselves and partly through industrial, institutional and government pensions and public old age assistance arrangements.

On the other hand, two factors have more than offset this trend towards a slower growth in the labour force than in population growth: the entry of a greater number of women into the labour force and the reduction in the number of hours worked per week. The latter development necessitated a larger labour force to produce the same output. This increasing demand for workers was not fully met by immigrant males of working age so that pressure for greater female participation in the working force became particularly marked.

But not only did opportunities for female employment increase; social habits and the manner in which Canadian households were run changed considerably over the last half a century. Two world wars and a change in social attitudes made it acceptable, or even fashionable, for young women to work either in plants or at white collar work. Many new jobs opened up which women were physically capable of performing. Rapid industrialization created many new factory jobs which entailed the operation of machines rather than the performance of heavy manual labour. The growth of commerce and service industries created many thousands of new clerical positions which could easily be filled by women. Opportunities to work in factories and in offices induced many young girls to leave farms and domestic service and though these latter shifts would not numerically change the labour force, they would have the effect of raising the money value of output because of the greater earnings of women in factories or offices.

The mechanization of the household was another factor making it easier for married women to work. The electric stove and the electric washing machine, the pressure cooker and canned and preserved foods simplified household work. The growth of the nursery school and the kindergarten, and the raising of the school-leaving age meant that children were not as dependent on home care and supervision as in earlier years. Finally, the process of specialization in industry and commerce and in the service sector that is a major characteristic of modern society provided for increasing opportunities to do part-time work. This not only meant new ways of entering the labour force but also presented in many instances welcome opportunities to add to the family income without too much conflict with family responsibilities.

The growing incidence of families with several income earners has had the effect of increasing family income far beyond what appears to be indicated by data of incomes received by the main breadwinner. Thus, real incomes per capita have risen not only because increasing productivity has made it possible for income earners to obtain greater real rewards for their labour and risks (see below), but also because a pooling of income within the bounds of families has made it possible to make more economic use of these earnings. For example, a grown-up daughter who is working would usually be required to contribute less to the family budget than it would cost her to live away from home. Hence, more real income would be left for things other than the necessities of life. Again, where a wife is working, her income would supplement that of her husband, enabling the family to afford many of the conveniences of life that might otherwise have been out of reach. Thus, there is little doubt that the existence of more than one income earner in a family affects the pattern of consumer and capital spending of Canadian families.

Another basic factor influencing the rate of growth of income levels - quite apart from increases in population and the number of persons working - is the ability to increase national output. This is the result of expansion of the stock of capital in the country, e.g., plants, equipment, transportation, communication and commercial facilities, as well as an increase in the ability of the labour force to turn out a larger volume of output through the use of increased and improved capital facilities, newly-developed production techniques, and increasingly more efficient methods of work organization.

All these factors have resulted in making it possible for the average worker to turn out a considerably larger volume of output in a considerably reduced number of hours per week.

In 1953 the average Canadian worker produced a total of over $4,500 worth of goods and services (that is, gross national product per person working). In 1900 his grandfather produced a total of about $578. Allowing for price changes in the intervening period, he produced more than twice as much in 1953 as he did at the turn of the century. This remarkable increase in output per man year was achieved notwithstanding a notable reduction in the number of hours worked. The trend towards a shorter work week is illustrated by data of the number of hours worked per week in manufacturing industries, which declined from 56.7 in 1900 to 41.3 in 1953, or by more than one-quarter (see Table 8).

Since 1900 Canada's population has almost tripled in size, and persons working have more than tripled in number. With real output per man year more than doubling, i.e., with an improvement in productivity, the nation's total output increased about six and a half times in volume terms over the last half a century. Without a growing population and an ability to produce so much more in shorter periods of time, the Canadian market would be considerably smaller than it is at present. Just to view in perspective how important has been the productivity factor in determining the present size of the Canadian market, here is the situation the economy would present had there been no increase in output per man year between 1900 and 1953. With no increase, Canadians in 1953 would have produced a gross national product of $11 billion in 1953 dollars. In effect this would have meant that standards of living of the average person would have been less than one-half what they were in 1953. And Canada's total market would have been $13 billion smaller than the record total of over $24 billion actually achieved in 1953. Increases in aggregate productivity and in the various industries and sectors that make up the economy is a subject that cannot be overlooked in any study of the growth possibilities of the Canadian market.

Incomes and Prices. The point has been made that the growth of the market depends to a large extent on increases in population and earned incomes. Now the ability to increase average incomes has depended in the main on the individual's ability to find and retain gainful employment and to increase his capacity to produce in a given period of time.

Opportunities to find gainful employment have in the past varied a good deal. Levels of employment and income in Canada are determined only in part by demand originating at home. A large number of jobs and an important part of Canada's national income is earned by this country's ability to trade export surpluses for those surpluses of other nations which satisfy our wants and desires. However, foreign demand for Canadian exports is much stronger at some times than at others. Significant declines of exports can have serious repercussions on the domestic economy, not only in terms of reduced jobs and incomes of those working directly in export industries, but also through their effects upon those dependent for their livelihood on a high level of activity in the export industries. Even more important, there are times when the whole economic climate may change. Individual businessmen and private corporations may decide that the market outlook, for a time at least, does not warrant further expansion. Plans for new projects, or the improvement of existing business facilities, may be shelved. Temporary retrenchment may become an over-riding consideration of business policy.

As a result the number of jobs will shrink and levels of income will decline. Notwithstanding the fact that the domestic market may be larger in terms of numbers catering to it, the absorptive capacity of that market becomes smaller. This was the experience in the depressed 'thirties when the Canadian market was almost cut in half, declining in size from $6.2 billion in 1929 to $3.6 billion in 1933.

But temporary interruptions apart, income levels of the Canadian population have risen fairly rapidly, and have been a strong and dynamic factor in influencing the rate of expansion and the changing pattern of the Canadian market.

In 1953 per capita incomes were as follows:

National income per capita	$1,288
Personal income(1) per capita	$1,224
Personal disposable income per capita, that is, personal income minus direct taxes	$1,127

Between 1900 and 1953 national income per capita in real terms more than doubled, rising at an annual average rate of 1.56 per cent (compound) (see Table 8). No comparable data on the rate of increase of personal income or personal disposable income are available. It appears that the rise of personal income before taxes has been of a somewhat similar

(1) Personal income is arrived at by adding transfer payments to national income and deducting earnings not paid out to persons from national income. Both elements have increased notably, the former because of an increase in government social security payments and interest payments on the national debt, the latter because of a rapid growth of public liability companies which are now responsible for the bulk of business conducted in Canada.

order as the growth in national income.(1) Personal income per capita after taxes has probably been rising a little more slowly than national income or personal income per capita before taxes. The main reason appears to be that direct taxes now represent a greater proportion of the nation's output than they did at the turn of the century. It is likely that personal disposable income per capita has risen over the last half a century by a little better than one per cent (compound).

These rates seem at first glance a rather modest improvement in earning opportunities. But the implications for the future growth of incomes and the corresponding expansion of the Canadian market are considerable. This can be illustrated in the following way: Assume that the average family were to be comprised of four persons and incomes would be four times per capita personal income recorded in 1953, or just a little below $5,000; assume further that personal income per capita would rise by 1.5 per cent per annum (compound) over the next 50 years. This would mean that the <u>average</u> family income, as assumed above, would be equivalent to over $10,000 fifty years hence in 1953 prices, an income bracket that only some 2 per cent of Canadian families have been enjoying in the early 1950's.

So far reference has been made to changes in real incomes of Canadians, that is, improvement in incomes after the effect of price inflation has been eliminated. In reality both income levels as well as purchasing power of such incomes change. For example, between 1900 and 1953 the average income per capita in current dollar terms rose at an annual rate of 3.9 per cent (compound) and the general price level at a rate of 2.5 per cent. Hence, income per capita in real terms rose considerably less, at an annual rate of 1.56 per cent, over this period.

The experience over the last half a century has been that prices about doubled about every 30 years; real national income per capita every 45 years, and total national income in real terms every 20 years. Two world wars and their aftermath had a good deal to do with the fact that prices grew more rapidly than per capita real incomes. In the latter part

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(1) See footnote (1) on preceding page.

of the 19th century Canadians were spared the effects of a major war. The general price level failed to show any significant increases and, in fact, declined over a good part of that period.

In sum, notwithstanding the significant rise in the general price level that Canadians experienced over the last half a century, their money incomes have risen even more rapidly. As a result Canadians have been able to improve their real earnings substantially. The rate of improvement has varied but the trend in each generation has been upward. At times this long-term upward trend has been interrupted either because prices were running ahead of incomes as, for example, in 1947 or because incomes were declining more rapidly than prices as, for example, in 1933 and 1938. But over the long run the increase in the output as a whole and in output per worker has enabled Canadians to improve their real earning position. This in turn has made it possible to spend more and save more in real terms and to make greater provision for security against the hazards of life. As a result, most markets for consumer goods and services have expanded notably over the last half a century. The expansion in the consumer market was a factor making necessary expansion of those capital facilities catering to it, and so growth in the one mutually reinforced growth in the other.

Changing Pattern of the Canadian Market

In discussing the growth of the Canadian market, reference has been made to the fact that the four major constituent markets also grew though at differing rates. These four markets are: consumer goods market, capital goods market, government market and foreign markets. In this concluding section the changing relative importance of these four markets and variations in the pattern within each market are briefly reviewed.

There are two outstanding features arising out of long-term changes in the composition of the Canadian market. One is the strong emphasis placed on the accumulation of capital and the other is the greater influence of government in economic affairs. The trend is less clear cut with respect to Canada's dependence on foreign markets. For a good part of the last half a century foreign markets became more important for the Canadian economy than previously, but more latterly the situation seems to have been reversed as expansion in the domestic market has outstripped that in foreign markets. Even so, foreign markets continued to be more important to Canadian prosperity in the 1950's than they had been at the turn of the century. While these three markets have increased in importance over the last 50 years or so, the proportion of the total output going to consumers has declined correspondingly. Thus, the consumer goods market has not risen as rapidly as the others. But notwithstanding this fact, the actual improvement in the standards of living of Canadians has been substantial indeed. The rise in real consumer expenditures per capita and the significant increase in population did result in a very great absolute expansion in the consumer goods market.

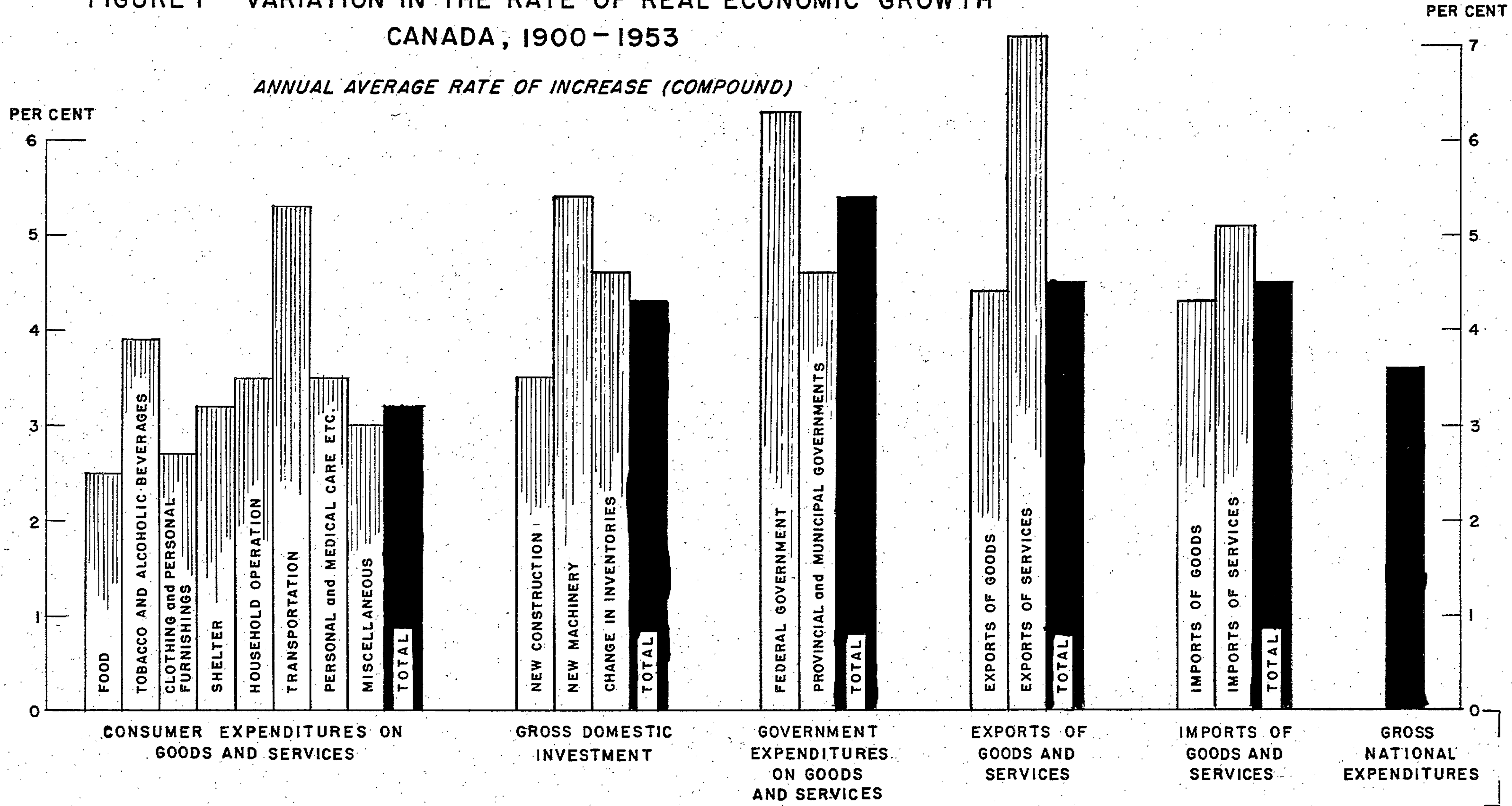
The changing relative importance of the four major markets in the Canadian economy is illustrated in the following percentage distribution of gross national expenditure for the years 1900 and 1953 (see also Figure 1):

	Per cent	
	1900	1953
Consumer expenditures on goods and services	83	62
Gross domestic investment	14	22
Government expenditures on goods and services	7	18
Exports of goods and services	20	22
Deduct imports of goods and services	-24	-24
Total gross national expenditure	100	100

The reason why the capital goods market is now more important in Canada than it was in 1900 is to be found in the growing industrialization and rapid resources development experienced in the decade following the conclusion of World War II. Also, technological advances and the growing complexity of modern society have been important contributing factors in raising capital requirements per worker and per unit of output. In other words, a much greater investment is required nowadays to keep a worker efficiently employed than was the case 50 years ago. The establishment of mass production techniques has made it necessary to invest much larger sums to produce a unit of output.

One of the main reasons for government purchases of goods and services assuming greater importance has been the significant increase in

FIGURE 1 - VARIATION IN THE RATE OF REAL ECONOMIC GROWTH
CANADA, 1900-1953



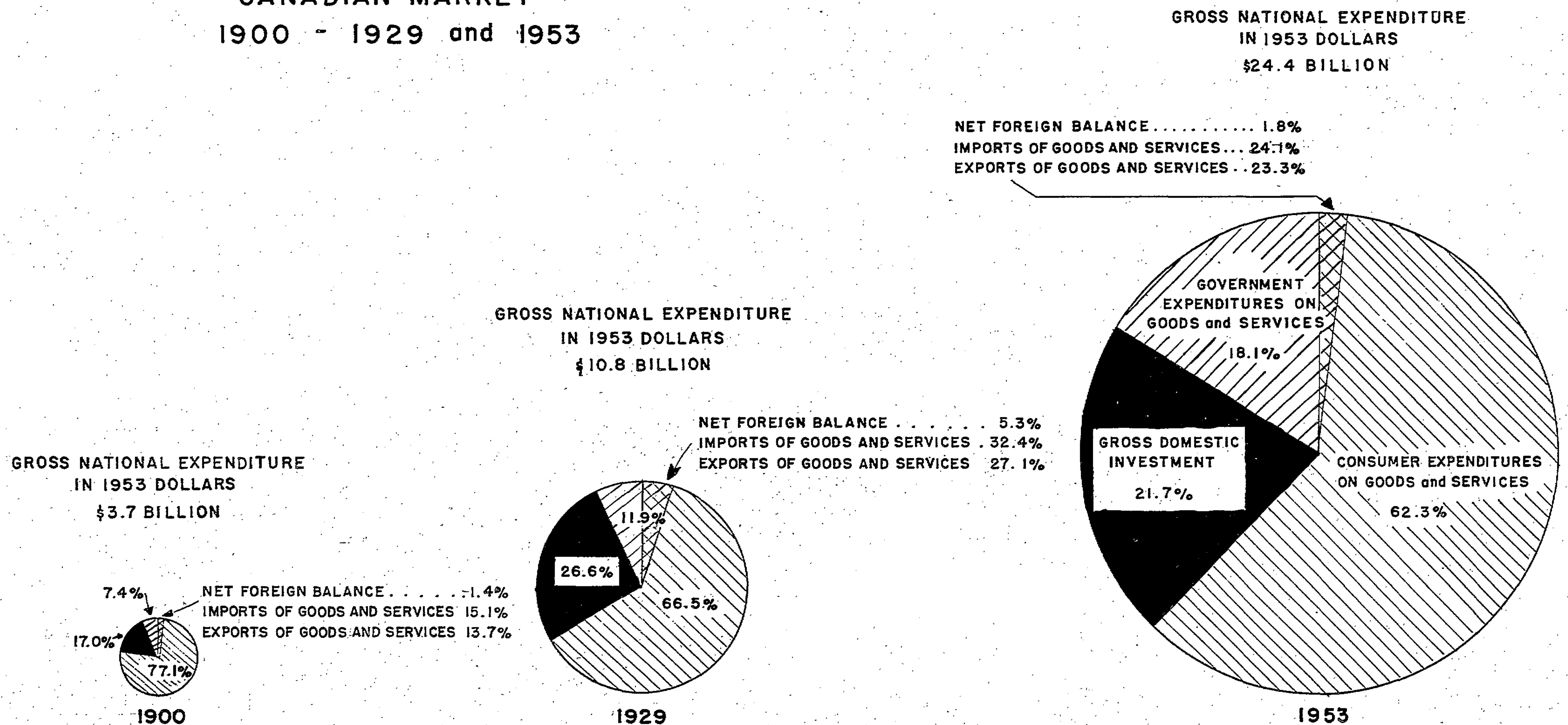
expenditures for defence required as insurance against the recurrence of a major conflict. But even if the comparison were made between 1900 and 1950 when defence expenditures were much smaller than they were in 1953, government purchases devoted to civilian requirements were of much greater relative importance than at the turn of the century. Over the half century Canadians became accustomed to expecting a great many more services from government, and also for governments to speed up and assure continuing economic development, to enter various public utility fields, e.g., the provincial government operation of hydro commissions and the Federal Government establishment of transportation agencies such as the Canadian National Railways and the Trans-Canada Air Lines.

To turn now to a brief review of the four major markets. (For an illustration of the changing pattern of the Canadian market, see Figure 2.)

Consumer Goods Market. In 1953 the market for consumer goods and services represented total sales by Canadian businessmen and importers of $15.2 billion. Of this $10.5 billion represented sales of goods and $4.7 billion sales of services.

The consumer goods and services market in 1953 was five times the volume of the market in 1900. This long-term growth was the result to a somewhat greater degree of population growth and a somewhat less degree of rising real consumer expenditures per capita. Between 1900 and 1953 the average annual rate of increase of population was 1.95 per cent (compound), and of consumer expenditures per capita in constant dollars, 1.23 per cent. On a per capita basis the average consumer had about twice as many goods and services available as in 1900. Besides this very much larger volume, there have also been significant improvements in quality and in the variety of goods and services available which are not reflected in the quantity figures. As a result of the notable increase in the ability of Canadians to spend more on consumer goods and services, the people of this country now enjoy the second highest standard of living in the world, next only to that of the United States.

FIGURE 2 — CHANGING PATTERN OF THE CANADIAN MARKET 1900 - 1929 and 1953



THE THREE COMPONENTS FOR EACH YEAR ADD UP TO MORE THAN 100% BECAUSE THE NET FOREIGN BALANCE WAS NEGATIVE IN EACH OF THESE YEARS

The long-term improvement in the standard of living has by no means been even. The increase was fairly slow in the first two decades of this century, as large parts of Canada were being opened to new settlement and substantial investment was required to build up the necessary capital facilities in both the new areas and in the more settled parts. With the economy fairly well built up after World War I, the standard of living took a considerable spurt upwards, followed by a decline when the depression hit this country in the 'thirties. Consumer expenditures per capita in real terms resumed their rapid upward trend during World War II despite the fact that the nation devoted a large portion of its resources to military purposes. This improvement lasted up to 1950. The fighting in Korea, increasing armament expenditures, and related resources and industrial expansion made it necessary for Canadians to devote a greater proportion of their output to these tasks, with the result that consumer expenditures per capita in real terms in both 1951 and 1952 were slightly below those recorded in 1950. However, in 1953 per capita expenditures on consumer goods and services were higher again, and they exceeded those recorded in the previous peak of 1950 by 2 per cent in real terms.

But by and large the long-term trend has been upward as a result of the continuing rise of real incomes. Over the period 1900 to 1953 this improvement in the earning position has made it possible not only to spend more on the necessities and comforts of life, but also to make more far-reaching provisions for protection against the premature loss of the breadwinner, and sickness and unemployment.

The major changes in the pattern of the consumer market include the following: Canadians now spend less in relative terms on the essentials of life - food, clothing and shelter - than they did at the turn of the century. On the other hand, many new types of consumer expenditures are being made as a result of technological change, for example, the motor car and electrical appliances. Other expenditures that have risen considerably over this period include alcoholic beverages, tobacco, health care, education and insurance. The changing pattern of the consumer market is illustrated by the following data showing the proportion of eight different groups of consumer goods and services to total consumer expenditures on consumer goods and services for the years 1900 and 1953 respectively (see also Table 9):

(1) food, including food consumed on farms (31 and 25 per cent),

(2) tobacco and alcoholic beverages (6 and 9 per cent),

(3) clothing and personal furnishings, including besides clothing, footwear, jewellery and watches, notions and small wares and a number of related services, laundering, dry and shoe cleaning, and repairs to all commodity items covered (17 and 12 per cent),

(4) shelter, including rents paid by tenants and imputed rental cost for home owners as well as lodging expenses (14 and 13 per cent),

(5) household operations, including fuel, electricity, telephone, household supplies for cleaning and other purposes, as well as the purchase of furniture and a great variety of household appliances and services related to the maintenance of these items; domestic service is also included in this sub-group (11 and 12 per cent),

(6) personal, medical and death expenses, including medical, dental, nursing and hospital care, drugs, medicines and toilet preparations and related services such as those provided by barber shops and beauty parlours (5 and 6 per cent),

(7) transportation, in which the major component nowadays is the purchase of motor cars and their operating costs (4 and 12 per cent),

(8) miscellaneous, which includes expenditures on education, recreation, holidays, life insurance, religious and welfare activities and other purposes that do not fit into any of the seven preceding categories (12 and 11 per cent).

While the above data suggest changes in the relative importance of consumer markets over the last half a century, these changes have been

TABLE 9. - CONSUMER EXPENDITURES BY TYPE AND UNIT SALES OF PASSENGER CARS, MECHANICAL REFRIGERATORS AND DOMESTIC WASHING MACHINES, CANADA, 1900, 1929 AND 1953

Item	1900		1929		1953		Annual Average Rate of Increase(1) (compound) 1900-1953
	$ Mill.	Per cent	$ Mill.	Per cent	$ Mill.	Per cent	
Expenditures							
Food	263	30.9	1,116	25.4	3,755	24.8	2.50
Tobacco and Alcoholic Beverages	51	6.0	290	6.6	1,334	8.8	3.86
Clothing and Personal Furnishings	143	16.8	593	13.5	1,843	12.1	2.65
Shelter	117	13.7	725	16.5	1,891	12.5	3.16
Household Operation	99	11.6	575	13.1	1,885	12.4	3.50
Transportation	36	4.2	391	8.9	1,885	12.4	5.25
Personal and Medical Care and Death Expenses	42	4.9	286	6.5	935	6.2	3.45
Miscellaneous	101	11.9	417	9.5	1,637	10.8	2.96
Total	852	100.0	4,393	100.0	15,165	100.0	3.20
Unit Sales			Thousands		Thousands		
Passenger Car Sales	-		171		359		1.40(2)
Mechanical Refrigerators	-		19		458		6.19(2)
Domestic Washing Machines	-		98		271		1.92(2)

(1) In real terms.
(2) Based on the period 1929 to 1953.

neither even nor universally applicable to those items making up each of the eight groups.

For example, the long-term decline of the role of food expenses as an item in the family budget has not been a steady one. During World War II, outlay on food actually increased in relation to other types of consumer expenditures in spite of the rationing of some food items. Reduced opportunities to spend money on other commodities in short supply and controlled food prices were among the reasons for this interruption in the long-term trend. Similarly, the upward trend in expenditures on transportation was reversed during World War II as the production of automobiles was discontinued to make way for manufacture of war equipment and as gasoline for non-essential purposes was severely rationed. Another example is expenditures on shelter, which show a moderate long-term decline over the period as a whole - with some interruptions in the inter-war period when the proportion of shelter expenses to total consumer expenditures rose notably.

Here are some examples of changes within the eight major consumer markets. In the food category, in spite of the long-term decline of the relative importance of the group as a whole, consumption of certain items has actually increased. The diet of the average Canadian has been enriched and greatly diversified by the addition of more fresh vegetables and fruit (including many non-native items ranging from early tomatoes to oranges), cereal, milk and preserved and processed foods to the largely bread, potato and meat diet of the early days.

In the tobacco and alcoholic beverages group, per capita consumption of spirits has declined substantially, by about one-fifth between 1900 and 1951, while beer consumption has risen at an extraordinarily rapid rate, about 2-3/4 times in the same period. Consumption of tobacco in real terms rose about 2-1/3 times over the last half a century.

In the clothing and personal furnishings group the downward trend of expenditures on clothing and footwear has in part been offset by relatively greater expenditures on personal services, some of which were unknown or used only little at the beginning of the 20th century, e.g., laundering, dry cleaning, and shoe shining.

In the market catering to household operations, expenditures for fuel have declined in relative terms because of the better insulation of homes built in more recent times and because of improved types of heating equipment which facilitate more economical use of fuel. Expenditures on domestic service also declined. On the other hand, expenses for electricity and telephone service have risen as these household facilities were placed within the reach of more and more Canadian families. Electrification of the household opened completely new markets for a variety of products, from refrigerators to vacuum cleaners. For example, mechanical refrigerators were hardly known in Canada until fairly recent times. As late as 1929 only 19,000 units were sold, compared with 458,000 units in 1953. Household use of other types of equipment, such as domestic washing machines, expanded considerably, with sales in 1953 being three times those of 1929 (see Table 9).

Perhaps the most important change has taken place within the framework of the transportation market. It was the development of the motor car that had the greatest impact on the consumer's family budget. In 1953, for example, consumers spent a total of $1.9 billion on transportation. Of this about four-fifths was devoted to the purchase and operating expenses of automobiles. In that year some 360,000 passenger cars were sold, or more than twice the number sold in 1929 (see Table 9).

Two of the reasons for the strong dynamic element in the long-term demand for motor cars in Canada are: (a) the process of urbanization and the spreading out of cities and towns has substantially increased the distance workers have to cover to get to their work, making it desirable to possess a car to cut down the time required to reach their place of work, to shop more conveniently and to get away from the city on weekends; (b) the improved relationship between incomes earned and prices of motor cars, which incidentally have improved a great deal in quality and in the service they provide. Incomes have risen more rapidly than prices of motor cars because increased productivity and the advantages of mass production techniques have kept costs of producing new motor cars from rising as rapidly as costs of many other items.

Summarizing, it can be said that the notable shifts that have taken place in the pattern of Canada's market for consumer goods and services have been mainly the result of changing price relationships, the development of new products, and the acquisition of new tastes by Canadian consumers. For example, as the price of liquor increased notably, real consumption per capita dropped while beer consumption increased several times, more than offsetting the decline in liquor consumption. Another example, as the household became more mechanized with the introduction of electrical household appliances, expenditures to hire domestic help declined relatively. Women freed from this work found more remunerative employment opportunities in factories and offices. In the end the nation as a whole gained as the greater earnings of women workers in turn contributed to a further expansion of the domestic market.

Capital Goods Market. In 1953 gross domestic investment amounted to some $\$5\frac{1}{4}$ billion. Of this amount about $600 million represented investment in inventories, with the remaining about $4.7 billion being spent on new construction and new machinery and equipment. It is the latter type of expenditure which is described in the next few paragraphs under the term "capital goods market".

Over the period 1900 to 1953 the capital goods market has risen nine times in real terms, or at an annual rate of 4.16 per cent (compound). The market for machinery and equipment has expanded more rapidly than the market for construction, the corresponding annual average rates of increase amounting to 5.36 per cent and 3.52 per cent respectively. Or to put it differently, in 1953 about 41 per cent of total capital expenditures involved purchases of machinery and equipment; in 1900 the proportion was about 36 per cent. Reasons for construction expenditures being more important in the earlier period include (a) the fact that, with industrialization just getting underway, the creation of plant facilities in 1900 was relatively more important than it is today; (b) the comparatively simple type of equipment available in this earlier period; (c) the necessity of making large capital expenditures to meet the most urgent needs of a rapidly growing urban population for shelter and related community facilities.

The capital goods market has expanded at an uneven rate. It grew more rapidly in the first part of this century than in the more recent period. This is illustrated, for example, by the fact that the annual rate of increase in the capital goods market from 1929 to 1953 was 2.22 per cent (compound), as compared with a long-term rate of increase from 1900 to 1953 of 4.16 per cent. Over the more recent period the construction market seems to have expanded more rapidly than the machinery and equipment market, reversing the trend of the earlier period. For example, the annual average rate of increase from 1929 to 1953 for new construction was 2.30 per cent (compound) and for machinery and equipment, 2.14 per cent. Within the construction market the most rapid growth seems to have taken place in the non-residential sector. In part this can be explained by the fact that a good deal of industrial expansion took place in the immediate post-war period and in the first two years following the outbreak of the war in Korea. Only after most of the demands for the construction of new plants had been met were home builders and institutions able to compete for the services of the construction industry (see Table 10).

What the rapid rate of mechanization of the farm, in industry and of commerce has meant for the capital goods market is illustrated by the following data: over the period 1929 to 1953 the market for industrial electric motors increased at an annual average rate of 2.81 per cent (compound), for commercial vehicles 2.17 per cent, and for farm tractors 1.4 per cent. Compared with this rise, expansion of the new housing market has been comparatively modest. Dwellings completed rose at an annual average rate of 0.9 per cent (compound) over the same period.

What has been described above as the capital goods market covers expenditures on new construction and machinery and equipment by private individuals and corporations, as well as publicly-owned business corporations, e.g., public utilities. The actual market is in fact somewhat larger because governments (other than publicly-owned business corporations) also spend on new construction and purchase new machinery and equipment. In 1953, for example, "private" capital expenditures on new construction and machinery and equipment amounted to $4.7 billion, or about 19 per cent of

TABLE 10. - CAPITAL EXPENDITURES AND SALES OF SELECTED CAPITAL ITEMS, CANADA, 1900, 1929 AND 1953.

Item	1900		1929		1953		Annual Average Rate of Increase (compound) 1900-1953
	$ Mill.	Per cent	$ Mill.	Per cent	$ Mill.	Per cent	
Capital Expenditures							
New Residential Construction	51	38.6	247	18.6	1,061	22.5	2.39(1)
New Non-residential Construction	34	25.8	486	36.5	1,726	36.7	4.51(1)
Total Construction	85	64.4	733	55.1	2,787	59.2	3.52(1)
New Machinery and Equipment	47	35.6	597	44.9	1,922	40.8	5.36(1)
Total Investment	132	100.0	1,330	100.0	4,709	100.0	4.16(1)
Sales of Units			Thousands		Thousands		
Dwellings Completed	-		62.9		100.7		0.90(2)
Farm Tractor Sales	-		22.1		46.3		1.40(2)
Commercial Vehicle Sales	-		33.1		103.4		2.17(2)
Industrial Electric Motors	-		16.8		73.1		2.81(2)

(1) In real terms.
(2) Based on the period 1929-1953.

the gross national expenditure in Canada. This incidentally is a higher proportion than is indicated for most other industrialized nations. In the United States, for example, a roughly comparable figure is 14 per cent. In Canada, if public investment, that is, capital expenditures by government departments, by government-operated institutions and on housing, is added the total capital goods market, reflecting both private and public investment expenditures, amounted to $5.8 billion, equivalent to 23 per cent of the gross national expenditure in 1953. High as the above proportions appear, they are not records for Canada. An even greater proportion of gross national expenditure appears to have been devoted to capital expenditures in 1929, and about the same proportion in 1920 as in 1953. In 1900, however, Canadians devoted a much smaller proportion of their output to capital expenditures, about two-thirds of the ratio of the 'twenties or the 'fifties. In considering the future growth of the capital goods market, it may always be well to remember its fickleness: it may rise more rapidly than almost any other major market, but it is also likely to contract more significantly.

Government Market. Government expenditures on goods and services amounted to some $4.4 billion in 1953. Of this amount $2.5 billion, or 57 per cent, represented outlay by the Federal Government, and approximately $1.9 billion, or 43 per cent, expenditures by provincial and municipal governments.

Government expenditures on goods and services in 1953 were sixteen times in volume terms what they had been in 1900, rising at an annual average rate of 5.39 per cent (compound) over this period. Federal Government expenditures increased more rapidly, at an annual average rate of 6.34 per cent, than those of provincial and municipal government expenditures, 4.63 per cent. The main reason for this has been mentioned previously, the necessity for the Federal Government to make substantial expenditures on defence because of the continuing international tensions prevailing in the 1950's. But if military expenditures are excluded, expenditures by the Federal Government for civilian purposes have risen only about half as rapidly over the last half a century, 3.46 per cent per annum, as compared with 4.63 per cent for expenditures by provincial and municipal governments.

But even in the civilian sector the role of the Federal Government has varied over the last half a century. For example, in the first two decades of the twentieth century, the Federal Government participated more actively in Canadian economic development than provincial or municipal governments. Since World War I the Federal Government has tended to place more emphasis on encouraging provincial and municipal governments to spend greater sums on regional and local economic development and the provision of more diversified services, as well as to create an economic climate in which individual initiative thrives and private ventures prosper. These efforts encountered some setbacks in the depressed 1930's, when provincial and municipal governments were experiencing financial difficulties and were not able to carry out within their jurisdiction as large a program as they would have wished. Also, unemployment was high and incomes were low, discouraging private business expansion.

Provincial and municipal governments, however, have come out of World War II financially stronger, and their expenditures have followed a steady upward trend in the more recent period. Federal-provincial taxation arrangements have underpinned the revenue position of provincial governments. Further, rapidly increasing social security expenditures, a large proportion of which was paid by the Federal Government, have provided additional support to the level of consumer spending. Payments made by one government to another government or to private individuals are described as "transfer payments". There are other types of transfer payments besides those mentioned above, such as interest payments on the national debt.

Transfer payments represent expenditures in addition to government expenditures on goods and services mentioned above. They are treated separately because their impact on the Canadian market depends on who is the recipient. If, for example, a mother is in receipt of a family allowance cheque and she spends this amount to purchase food and clothing for her children, this expenditure would affect the consumer goods market and be thus recorded. If, on the other hand, the Federal Government makes a

50 per cent grant to a province to share in the cost of the building of a section of the Trans-Canada Highway, this transfer payment would show up as part of an expenditure made by the provincial government paid to the contractor who builds this particular section of the Trans-Canada Highway.

Transfer payments can therefore be said to affect the Canadian market indirectly, rather than directly as is the case with expenditures on goods and services. Just to give an indication of total government spending,(1) it amounted to $6.9 billion in 1953, consisting of some $4.4 billion expended on goods and services and about $2.5 billion on transfer payments (including inter-governmental transfer payments) and subsidies. While corresponding figures are not available for 1900, data available for the more recent period illustrate the growing importance of transfer payments as an element of government spending. In 1929, for example, the proportion of transfer payments to total government spending was 27 per cent, but this rate had risen to 36 per cent in 1953 (see also Table 11).

The government market has been broadly described as covering all government expenditures on goods and services. From a strict marketing point of view, a somewhat narrower interpretation of the government market might be taken. For example, when governments make salary payments to their employees this does not provide a direct opportunity for businessmen to do business with the government. That opportunity arises when civil servants in turn spend their earnings on goods and services. A somewhat more limited interpretation of the government market would be to confine the term to the purchases which governments make directly from business, whether they involve the purchase of a truck or the letting of a construction contract. The bulk of government spending on goods and services goes for purchases from business, 59 per cent of the total in 1953. In recent years governments have relied more heavily on the business community to supply their needs, as is indicated by the rise of this proportion, from 44 per cent in 1929 to 59 per cent in 1953 (see Table 11).

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(1) As defined in the National Accounts (see also footnote 3 to Table 11).

TABLE 11. - GOVERNMENT EXPENDITURES ON GOODS AND SERVICES AND TRANSFER PAYMENTS, CANADA, 1900, 1929 and 1953.

Item	1900		1929		1953		Annual Average Rate of Increase(1) (compound) 1900-1953
	Total $ Mill.	Per cent	Total $ Mill.	Per cent	Total $ Mill.	Per cent	
Government Expenditures on Goods and Services							
Federal	29	37.7	173	25.4	2,525	57.3	6.34
Provincial and Municipal	48	62.3	509	74.6	1,883	42.7	4.63
Total	77	100.0	682	100.2	4,408	100.0	5.39
Government Expenditures on Goods and Services by Type of Transaction							
Purchases from Business	-	-	298	43.7	2,588	58.7	6.58(2)
Expenditures on Own Account	-	-	384	56.3	1,820	41.3	3.92(2)
Total	-	-	682	100.0	4,408	100.0	5.27(2)
Government Budgetary Expenditures(3)							
Expenditures on Goods and Services	-	-	682	72.6	4,408	64.0	5.27(2)
Transfer Payments and Subsidies	-	-	258	27.4	2,483	36.0	7.03(2)
Total	-	-	940	100.0	6,891	100.0	5.83(2)

(1) In real terms.
(2) Based on the period 1929 to 1953.
(3) Data relate to calendar year and exclude expenditures made in connection with self-supporting government operations, e.g., the Post Office Department, and for the purchase of land and used capital assets.

Foreign Markets. The growth of foreign markets has been briefly referred to in dealing with the importance of foreign trade on the Canadian economy. In the paragraphs that follow the changing pattern of Canada's foreign markets is discussed.

In 1953 Canada exported a total of $5.4 billion of goods and services to over 100 countries. Of the total value, 79 per cent consisted of sales of commodities abroad and 21 per cent of payments received for services rendered to other countries, from tourist trade to insurance services. Total exports of goods and services in 1953 were eleven times what they had been in 1900, representing an annual average rate of increase in Canada's foreign markets of 4.58 per cent (compound). The market for services rose even more rapidly, at an annual rate of 7.08 per cent, than the market for commodities (see Table 12). Some of the reasons for this are: the tremendous increase in receipts from freight and shipping transactions with other countries; the much higher expenditures in Canada of tourists and foreign travellers; the greatly increased interest and dividend payments received by Canadians from their expanded investments abroad; and the much higher revenues from a number of international transactions such as personal and institutional remittances, business commissions and fees, expenditures of foreign governments in Canada, etc. Receipts from these sources increased more rapidly between 1900 and 1953 than receipts from the exports of commodities.

Canada's largest foreign markets have always been the United Kingdom and the United States. While in the latter part of the nineteenth century the United States was Canada's largest export market, the situation was reversed by 1900, when the United Kingdom absorbed 52 per cent and the United States 38 per cent of the total Canadian produce sold abroad. In the last half a century the two countries again changed places. In 1953 59 per cent of total commodity exports went to the United States and 16 per cent to the United Kingdom. Another important change in the destination of Canada's exports has been the growth of foreign markets in the rest of the world. These are now more than twice as important as they were in 1900, taking 25 per cent of Canada's exports in 1953 as compared to

TABLE 12. - EXPORTS OF GOODS AND SERVICES BY TYPE, AND COMMODITY EXPORTS BY DESTINATION, CANADA, 1900, 1929 AND 1953.

Item	1900		1929		1953		Annual Average Rate of Increase(1) (compound)
	Total $ Mill.	Per cent	Total $ Mill.	Per cent	Total $ Mill.	Per cent	
Exports by Type(2)							
Goods(3)	185	91.1	1,215	74.4	4,296	79.3	4.04
Services	18	8.9	417	25.6	1,124	20.7	7.08
Total	203	100.0	1,632	100.0	5,420	100.0	4.58
Commodity Exports(4) by Destination							
United States	68	38.4	493	42.8	2,419	58.8	4.89
United Kingdom	92	52.0	290	25.2	665	16.1	1.76
Other Countries	17	9.6	369	32.0	1,033	25.1	5.95
Total	177	100.0	1,152	100.0	4,117	100.0	4.04

(1) In real terms.
(2) National Accounts concept.
(3) Including "gold available for export".
(4) Exports of domestic produce as reported in the trade statistics, Dominion Bureau of Statistics.

10 per cent at the beginning of the century. The number of countries to which Canada exports has increased substantially, with the six largest foreign markets in addition to the United States and the United Kingdom including the following (in order of importance as of 1953): Japan, Western Germany, Belgium and Luxembourg, Union of South Africa, Netherlands and Australia.

There have been two main changes in the composition of Canada's exports over the last half a century: (a) Canadian exports are now based to a much greater extent on the sales of minerals and metals and their products and there is relatively somewhat less dependence on exports based on agriculture and forest resources; (b) With the development and diversification of Canadian industry, this country has been able to export many more of its raw materials in processed or fabricated form.

On the first point, in 1900 about two-thirds of Canada's exports were based on the country's agriculture and forest resources. While items falling into this category still accounted for about three-fifths of the country's shipments abroad in 1953, minerals, metals and their products bulked increasingly large in total exports, comprising almost a third of total Canadian sales to foreign markets in 1953, compared with about a quarter in 1900.

On the second point, the following observations by the Minister of Trade and Commerce summarize Canada's changing position with respect to her trade in raw materials both in their natural and processed form:

"First, the bulk of Canada's industrial materials is exported in processed form. For example, such processed products as aluminum ingots and woodpulp amounted to 44 per cent of total exports in 1953, as against 7 per cent for industrial materials in raw form, such as iron ore and crude asbestos.

"Secondly, we are now exporting more of our industrial materials in processed form than we used to. The ratio of processed industrial materials to total exports, now 44 per cent, . . . compares with only 40 per cent of the considerably smaller volume sold abroad before World War II.

"Thirdly, Canada is now a net importer of industrial raw materials. In 1953, our exports of industrial raw materials amounted to some $300 million, as against imports of industrial raw materials of $550 million. Hence in that year we were a net importer of industrial raw materials to the extent of $250 million. The explanation is quite simple. Canada's rapidly growing industrial economy requires many raw materials which are not found in this country or which can be obtained here only at high cost. Since Canadians believe in buying in the cheapest world markets, it is good business to buy such raw materials abroad. . .

"The Canadian economy has made remarkable progress in its industrial expansion. For example, employment in manufacturing industries in our country comprises now about a quarter of the labour force, or about the same proportion as in the United States, the world's most industrialized nation. Only a small fraction of our industrial raw materials is sold abroad in what can properly be described as raw form. Where this is done, it is done for good business reasons. Such exports speed up resources development in Canada, workers draw high wages, and the Canadian economy generally benefits from increased employment and from a higher volume of trade."(1)

In the main four factors have been influential in changing the pattern of Canada's export markets: (1) shift in foreign demand, (2) scientific and technological developments which have made possible greater exploitation of Canadian resources, (3) the opening up of the western hinterland and the northern regions of the country, and (4) the growth of domestic processing and manufacturing industries. The major shifts that have occurred reflect the adaptability of the Canadian economy to changing market conditions in foreign countries. A major factor contributing to this has been the willingness of Canadians to make large capital expenditures from which returns could be expected only after foreign markets materialized.

The main lesson to be learned from the past growth and the changing pattern of Canada's foreign markets is perhaps this: if Canadians want to retain and in fact continue to expand their foreign markets and remain one of the world's leading trading nations, they must (1) remain competitive,

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(1) Address by the Minister of Trade and Commerce to the Canadian Council of the International Chamber of Commerce, Toronto, March 2, 1955, pp. 4 and 5.

in terms of price and type and quality of products and services, (2) keep their economy flexible, that is, be willing to adapt production techniques to cater to changes in demand abroad, (3) take bold and imaginative action to develop their resources, and (4) be prepared to wait at times for their efforts to bear fruit.

A statistical summary reflecting changes in the pattern of the Canadian market will be found in Table 13 which shows for the period 1900 to 1953 consumer expenditures on goods and services, gross domestic investment, government expenditures on goods and services, exports and imports of goods and services, and gross national expenditure, the latter both in current dollars and in constant (1953) dollars.

Market Appraisal as an Aid to Business Policy Formulation

One of the main purposes of studying past market trends and changes in the market pattern is to develop methods of appraising current changes in the market, and to undertake projections of its likely growth, both in aggregate and in the specific commodity and service markets. To achieve this more is required than just a cursory review of the growth of the Canadian market and the factors contributing to it, which has been attempted in summary fashion in this chapter. The Canadian market is now so large and complex that to understand it requires a continuous review of the changes that are occurring. What is needed is not only an appraisal of the behaviour of specific markets but of the Canadian market in aggregate, as well as the basic forces that contribute to changing both the pattern of the market and the economic climate in which market forces operate.

The implication for business management is simply this: marketing analysis in Canada has come of age. It is now recognized as essential enough and complicated enough to warrant the services of specialists well trained to understand the behaviour of the market in total as well as its component parts, and sufficiently competent to advise executives on trends and prospects as a means of assisting in the formulation of successful policies for the marketing of products and the expansion of capital facilities. Business executives themselves are acknowledging more and more the

TABLE 13. - GROSS NATIONAL EXPENDITURE BY COMPONENTS, CANADA, SELECTED YEARS, 1900-1953.

Year	Expenditures on Consumer Goods and Services Current $ Mill.	Gross Domestic Investment Current $ Mill.	Government Expenditures on Goods and Services Current $ Mill.	Exports of Goods and Services Current $ Mill.	Deduct Imports of Goods and Services Current $ Mill.	Gross National Expenditure(1) Current $ Mill.	Gross National Expenditure(1) Constant (1953) $ Mill.
1900	852	145	77	203	245	1,032	3,699
1910	1,671	567	173	349	626	2,134	6,127
1920	3,972	1,271	554	1,652	1,922	5,527	7,730
1926	3,687	897	521	1,650	1,522	5,294	9,159
1927	3,919	1,167	567	1,618	1,629	5,647	9,924
1928	4,194	1,293	597	1,773	1,808	6,105	10,729
1929	4,393	1,391	682	1,632	1,945	6,166	10,761
1930	4,204	900	767	1,286	1,625	5,546	10,328
1931	3,646	403	738	967	1,142	4,560	9,012
1932	3,108	146	643	804	901	3,767	8,243
1933	2,887	157	526	826	828	3,552	7,590
1934	3,077	376	568	1,018	948	4,034	8,475
1935	3,243	425	603	1,143	1,017	4,345	9,128
1936	3,457	419	600	1,428	1,183	4,701	9,535
1937	3,777	741	671	1,591	1,409	5,355	10,440
1938	3,815	595	720	1,356	1,257	5,233	10,550
1939	3,904	936	735	1,451	1,328	5,707	11,414
1940	4,399	1,187	1,165	1,808	1,629	6,872	13,065
1941	5,053	1,325	1,689	2,467	1,976	8,517	15,074
1942	5,514	1,360	3,726	2,361	2,307	10,539	18,015
1943	5,727	736	4,227	3,444	2,917	11,183	18,890
1944	6,187	813	5,022	3,561	3,569	11,954	19,565
1945	6,811	726	3,704	3,597	2,910	11,850	18,750
1946	7,977	1,917	1,832	3,210	2,878	12,026	18,221
1947	9,173	3,068	1,570	3,638	3,621	13,768	18,456
1948	10,112	3,290	1,798	4,054	3,636	15,613	19,017
1949	10,963	3,199	2,128	4,011	3,837	16,462	19,574
1950	12,029	4,176	2,326	4,183	4,513	18,203	20,803
1951	13,273	5,430	3,243	5,089	5,613	21,474	22,025
1952	14,403	4,497	4,204	5,573	5,400	23,185	23,443
1953	15,165	5,281	4,408	5,420	5,860	24,350	24,350

(1) Including an allowance for residual error in reconciling separate estimates of Gross National Product and Gross National Expenditure for the years 1926 to 1953 as per National Accounts.

importance of marketing analysis as a tool aiding the formulation of business policies. However, it will always be well to remember that marketing analysis is just a tool and not a substitute for decision making. Business executives will therefore want to look at market appraisals, forecasts and projections with a critical eye, realizing that they are limited in value and subject to many qualifications some of which are dealt with in the next chapter dealing with the future of the Canadian market. With all the developments of modern techniques, statistical investigations, market surveys, economic projections and appraisals, the cardinal requirement for successful business decisions remains: the application of good common sense.

APPENDIX TO CHAPTER 1

Explanatory Notes to Rearrangements of Components of Gross National Product and Gross National Expenditures Adapted for Marketing Analysis

These notes provide supplementary information on the meaning of the various items making up gross national product and gross national expenditures adapted for marketing analysis, as shown in Table 2, and a key which relates the data as shown in Table 2 to the data as shown in the tables contained in the National Accounts published by the Dominion Bureau of Statistics.

Components of Gross National Product, as per Table 2

Net Compensation of Employees (Item 1) covers wages, salaries and other labour income paid by business, governments and persons plus military pay and allowances less contributions paid by employers and employees to social insurance and pension funds. This is net of personal income taxes. Data are from Table 6 in the National Accounts and cover the following: 1(a)+1(b)+1(c)+2-1(d) minus personal income tax deductions at the source. The latter figure is from monthly taxation statistics statements issued by the Department of National Revenue.

Net Proprietors' Cash Income (Item 2) covers business, professional, farm, rental and investment income, and includes all interest payments on the government debt to persons net of personal income taxes. The data are from Table 6 of the National Accounts, including items 3(a)+3(b)+4 minus income in kind as shown in items 1, 2, 3 and 5 in Table 44 of the National Accounts, and minus the remaining portion of total personal income tax payments, the latter being total personal income tax less that portion deducted at the source. Personal income tax statistics are from the Department of National Revenue monthly statements.

Proprietors' Imputed Income (Item 3) covers chiefly home-grown products used by farmers and imputed rental income on owner-occupied dwellings. The data are the sum of items 1, 2, 3 and 5 of Table 44 of the National Accounts.

Transfer Payments to Persons (Item 4) covers social security payments by governments to individuals, charitable contributions from corporations, and net bad debt losses of corporations. Not included are transfer payments representing payments of interest on the national debt. The data are from item 5 in Table 6 of the National Accounts.

Succession Duties and Minor Taxes (Item 5) cover the remainder of personal direct taxes not as yet deducted from items 1 to 3. They cover besides succession duties such minor taxes as motor vehicle licenses, marriage licenses, fines and penalties paid by persons. The data are from items 7(b) and 7(c) in Table 7 of the National Accounts.

Personal Disposable Income (Item 6) is total income in cash and kind received by individuals net of direct taxes. It represents the sum of items 1, 2, 3 and 4 minus item 5, as per Table 2 in this chapter. Personal disposable income is to be found in item 7 of Table 5 of the National Accounts.

Personal Disposable Cash Income (Item 7) is personal disposable income minus income in kind. It is the sum of items 1, 2 and 4 minus 5, as shown in Table 2.

Direct Taxes (Item 8) cover personal income taxes, succession duties and other minor taxes. The data are from item 7 in Table 7 of the National Accounts.

Total Personal Income (Item 9) is total income in cash and kind received by individuals before direct taxes. It is the sum of items 6 and 8 as per Table 2, and is shown in item 5 of Table 5 of the National Accounts.

All Transfer Payments (Item 10) cover transfer payments to persons, corporations and non-profit institutions and interest payment on that portion of the public debt which does not represent existing assets. These data come from items 2 and 3 in Table 5 of the National Accounts.

Earnings Not Paid out to Persons (Item 11) cover undistributed corporation profits, corporation profits taxes, withholding taxes, government investment income, an adjustment on grain transactions, and employer and employee contributions to social insurance and government pension funds. Data come from item 4 of Table 5 of the National Accounts.

National Income (Item 12) is the aggregate of all earnings by both individuals and corporations before direct taxes arising out of the production of goods and services. This item is the sum of items 9 and 11 minus item 10 of Table 2. The data are to be found in item 6 of Table 1 and item 1 of Table 5 of the National Accounts.

Indirect Taxes (Item 13) cover all taxes which are deductible as expenses from the gross revenues of business, such as excise taxes, the retail sales tax, the manufacturer's sales tax, and customs collections. The data are from item 14 of Table 8.

Subsidies (Item 14) cover such government payments as agricultural subsidies including wheat acreage reduction, premiums on livestock, subsidies on milk, cheese, butter fat, oats and barley; business subsidies such as emergency assistance to gold mines, payments under the Maritime Freight Rates Act and steamship subsidies for mail; trading losses on operations of government commodity agencies, e.g., the Fisheries Prices Support Board and the Agricultural Prices Support Board. Data are from item 21 of Table 9 of the National Accounts.

Net National Product at Market Prices (Item 15) covers the total value of goods and services produced by Canadian residents in a year less depreciation allowances and similar business costs.

Depreciation Allowances and Similar Business Costs (Item 16) covers allowances for current consumption of capital based on accounting allowances for depreciation, obsolescence and amortization as well as the claimed portion of insurance against fire and other damage to business property and bad debt allowances. Data come from item 8 in Table 1 of the National Accounts.

Residual Error of Estimate (Item 17) represents half the difference of the statistical discrepancy between the estimate of gross national product and gross national expenditure. Data are from item 9 of Table 1 of the National Accounts.

Gross National Product at Market Prices (Item 18) covers the total value of goods and services produced by Canadian residents in a year. This total is arrived at by adding items 15, 16 and 17 of Table 2. The data are to be found in item 10 of Table 1 of the National Accounts.

Components of Gross National Expenditure, as per Table 2

Personal Expenditures on Goods and Services (Item 1) covers the outlay of Canadian residents on consumer goods and services of all types, including durable, semi-durable and soft goods as well as services. This component is made up of the sum of items 2, 3, 4 and 5 shown in Table 2. The data are from item 1 of Table 2 of the National Accounts.

Durable Goods (Item 2) represents personal expenditures on such commodities as motor cars, household appliances and furniture. Data are from item 10 of Table 43 of the National Accounts.

Semi-Durable Goods (Item 3) represents outlay by consumers on such commodities as clothing, footwear and other personal furnishings. Data are from item 3 of Table 43 of the National Accounts.

Soft Goods (Item 4) covers mainly outlay by consumers on perishables such as food and drink. Data are arrived at by subtracting item 3 from item 11 in Table 43 of the National Accounts.

Services (Item 5) covers outlay by consumers on such items as rental, health, education, insurance and recreation. Data are from item 12 of Table 43 of the National Accounts.

Gross Domestic Investment (Item 6) includes capital expenditures by business, individuals, institutions and government-business corporations, as well as the net change in the volume of inventory holdings both by business and in agriculture. This component is made up of the sum of items 7, 8, 9 and 10 of Table 2. Data are the sum of items 3, 4, 5 and 6 of Table 2 of the National Accounts.

New Residential Construction (Item 7) covers the value of construction work put in place in building new homes and major improvements and alterations to existing homes. Data are from item 3 of Table 2 of the National Accounts.

New Commercial, Industrial and Institutional Construction (Item 8) covers expenditures on new construction, major improvements and alterations for plants, commercial and other facilities. This item is described in the National Accounts as "new non-residential construction" and the data are to be found in item 4 of Table 2 of the National Accounts.

New Machinery and Equipment (Item 9) covers the purchases by business enterprises and government-owned business corporations of such items. Data are from item 5 of Table 2 of the National Accounts.

Change in Inventories (Item 10) covers the net change in the book value of business inventories and the net physical change in agricultural inventories. Investment in grain inventories by the Canadian Wheat Board is included but investment in inventories by various government commodity agencies not organized as business enterprises, e.g., the Agricultural Prices Support Board and the Fisheries Prices Support Board, are excluded. Data are from item 6 of Table 2 of the National Accounts.

Government Expenditures on Goods and Services (Item 11) covers outlays of federal, provincial and municipal governments for salaries and wages of government employees, and purchases from business generally, as well as certain other items such as payments on the interest on the portion of the public debt representing existing assets. This component is the sum of items 12, 13, 14, 15 and 16 of Table 2. The data are from item 2 of Table 2 of the National Accounts.

Government Construction (Item 12) covers government expenditures on new construction, major improvements and alterations including both military and civilian projects, as well as expenditures on resources development of a capital nature, e.g., forestry conservation and development. Data are the sum of items 2 and 3 of Table 51 of the National Accounts.

New Machinery and Equipment (Item 13) covers government expenditures on such items excluding military equipment. Expenditures on military equipment are considered of a perishable type and are included under "other goods" (Item 14). Data are from item 4 of Table 51 of the National Accounts.

Other Goods (Item 14) covers all government expenditures on commodities, excluding government construction and new machinery and equipment. Data are arrived at by deducting from item 19(a) of Table 9 the sum of items 2, 3 and 4 in Table 51 of the National Accounts.

Direct Services (Item 15) represents government expenditures on wages and salaries, and military pay and allowances. Data represent the sum of items 19(b)(i) and (ii) of Table 9 of the National Accounts.

Interest Portion of the Public Debt Representing Existing Assets (Item 16) is included under government expenditures on goods and services and not treated as a transfer payment because it is considered to represent a carrying charge on existing government-owned assets which render a productive service to the community. Data are from item 19(b)(iii) of Table 9 of the National Accounts.

Total Domestic Market (Item 17) represents the sum of personal expenditures on goods and services, gross domestic investment excluding change in inventories, and government expenditures on goods and services excluding the interest portion of the public debt representing existing assets. This is an arbitrary concept, as is explained in the text of Chapter 1. The concept could be broadened to include the items excluded. The total domestic market is the sum of items 1, 6 and 11 minus items 10 and 16 of Table 2.

Goods (Item 18) represents total domestic expenditures on the purchase of goods both those produced in Canada and those imported from abroad for domestic consumption. This component is the sum of items 2, 3, 4, 7, 8, 9, 12, 13 and 14 of Table 2.

Services (Item 19) covers total domestic expenditures on domestically-rendered services. The component is made up of the sum of items 5 and 15 of Table 2.

Exports of Goods and Services (Item 20) covers Canadian sales abroad of all types of commodities and services. The latter include such direct services as payments received by Canadian residents from tourists from abroad coming to Canada, as well as such indirect services as interest or dividend payments received by Canadians for capital assets which they own in other countries. This component is the sum of items 21 and 22 of Table 2. Data are from item 7 in Table 2 of the National Accounts.

Goods (Item 21) covers total commodity exports from Canada to all countries. Data are the sum of items 1 and 2 of Table 52 of the National Accounts.

Services (Item 22) covers total payments received for services rendered by Canadians both directly and indirectly. The component is exclusive of funds brought in by immigrants and inheritances received by Canadian residents from abroad. Data are arrived at by deducting item 5 from item 3 in Table 52 of the National Accounts.

Total Domestic and Foreign Market (Item 23) covers total sales at home and abroad of both goods and services. This component is the sum of items 17 and 20 of Table 2.

Goods (Item 24) covers sales of commodities both at home and abroad. This component is the sum of Items 18 and 21 of Table 2.

Services (Item 25) covers total of services rendered both in Canada as well as services rendered by Canadians to non-residents. This component is the sum of items 19 and 22 of Table 2.

Imports of Goods and Services (Item 26) covers purchases of goods and services from non-residents by Canadians for domestic consumption. The component is the sum of items 27 and 28 of Table 2. Data are from item 8 in Table 2 of the National Accounts.

Goods (Item 27) covers total purchases of commodities imported into Canada. The data are from item 7 in Table 52 of the National Accounts.

Services (Item 28) covers payments for services rendered to Canadians by non-residents. The data are arrived at by subtracting item 10 from item 8 in Table 52 of the National Accounts.

Residual Error of Estimate (Item 29) represents half the difference of the statistical discrepancy between the estimate of gross national product and gross national expenditure. The data are from item 9 in Table 2 of the National Accounts.

Gross National Expenditure at Market Prices (Item 30) covers the sum total of all expenditures made in Canada to purchase the nation's final output in a given year plus the net change in both agricultural and business stocks. Since the components of gross national expenditure include the value of imported goods and services, and since total gross national expenditure is a measure of expenditures on the production of Canadian factors only, imports of goods and services must be deducted.

Goods (Item 31) covers the sum total of expenditures made to purchase all commodities produced in Canada in a given year plus or minus net change of inventories and minus the import content of those goods produced. The component is arrived at by deducting item 27 from item 24 of Table 2.

Services (Item 32) covers expenditures on services rendered by Canadians to Canadian residents plus or minus the difference between the value of services rendered by Canadians to non-residents and the value of services rendered by non-residents to Canadians. This component is arrived at by deducting item 28 from item 25 of Table 2. No allowance is made for the residual error of estimate in this component breakdown, but the latter is included under gross national expenditure at market prices to assure conceptual comparability of this estimate with the estimate of gross national product at market prices. The sum of items 31 and 32 will differ from gross national expenditure at market prices by the residual error.

CHAPTER 2. FUTURE OF THE CANADIAN MARKET

Summary

This appraisal of the long-term growth of the Canadian market is based upon three basic assumptions: (a) The economy will retain its basic private enterprise character. (b) The economy will continue to grow notwithstanding some variation in the rate and some interruptions in the process of further expansion, and also that the economy will operate at a high level. The past growth in the market has shown a variation in the rate of expansion as the changing pace in population increases, the discovery and development of natural resources and the introduction of technological innovations has been reflected. There are no assurances that each future year will be better than the preceding one. Nevertheless considerations such as the greater consciousness of economic interdependence amongst nations, the continuing discovery and development of resources, accompanied by further industrialization, the fact that government expenditures may act as a support in maintaining economic activity, the emergence of a broadly based domestic purchasing power, and the greater public awareness of the kinds of economic problems faced, all suggest the possibility of a lesser degree of economic fluctuation and an even greater likelihood for expanding markets as time goes by. (c) There will be no all-out war, but international uncertainties will continue thereby necessitating a greater degree of defence preparedness than the free nations were accustomed to maintain before World War II.

To make the analysis concrete and allow specific future estimates of the level of gross national expenditure, the year 1975 was selected as a convenient bench mark for appraisal. In drawing up the projections several economic variables were analysed including the size of the population and of the labour force, the portion of the labour force gainfully occupied, the number of hours worked per week and output per man hour. Concrete expression is given to these five economic variables as follows:

(a) The population may grow at an annual rate between 1.52 and 2.23 per cent. If it rises at an assumed intermediate rate of 1.91 per cent the total would approximate 22,500,000 by 1975.

(b) Of the population 38.5 per cent may be in the labour force.

(c) Of the labour force 96.5 per cent may be employed and 3.5 per cent unemployed as an average during that year.

(d) and (e) Hours worked per week may continue to decline, and output per man hour to rise, involving an annual average rate of increase of real output per man year of about 2 per cent.

By thus giving quantitative expression to these variables, 1975 gross national expenditure reflecting the size of the Canadian market may range between \$53 billion and \$62 billion in 1953 dollars. Assuming an intermediate rate of population growth a level of \$58 billion may be expected compared with the 1953 figure of slightly more than \$24 billion, an increase of 137 per cent. The comparable per capita gross national expenditure figures would be \$2,578 for 1975 as against \$1,647 for 1953, an increase of 57 per cent.

Four alternative patterns for the distribution of total expenditure among the various major buyers of output - consumers, business, governments and foreign residents - are considered. These distribution patterns are described as high consumption, high investment, high government

expenditure and an "average" pattern. The average pattern reflects the following expenditure changes over 1953: personal consumer expenditure of $37.3 billions, up 147 per cent, with expenditures on consumer durables and services likely to expand somewhat more rapidly than the market as a whole; gross domestic investment of $11.0 billions, up 108 per cent, with outlay for machinery and equipment showing a greater increase than expenditures upon construction; government expenditure on goods and services of $9.2 billions, up 109 per cent. All patterns assumed exports and imports of goods and services to be in balance.

These estimates suggest that gross national expenditure will rise more rapidly in the next quarter century than in the last. The considerations which may be cited in support of this possibility are the prospects of avoiding as serious an economic disturbance as Canada experienced in the 'thirties, the larger role now played by research and scientific work, the more ample financial resources of the country, and in general terms the greater experience and confidence gained by Canadians in organizing and utilizing more effectively their human and natural resources and capital equipment.

Economic Forecasting

At what rate is the Canadian market growing, and how big is it likely to be for this or that commodity or service, or in aggregate next year, five or ten years from now, or over an even longer period of time? Such questions are frequently raised by Canadian businessmen, particularly by those who are endeavouring to get some help in determining sales objectives, expansion programs, personnel training plans and related business policies.

Short-term Economic Appraisals by Canadian Industry. Many short-term market appraisals and economic surveys are being undertaken in Canada by business firms, trade associations and trade papers, universities and governments. Most large corporations now have quarterly, semi-annual or annual advance budgets which in part represent business objectives or targets, in part appraisals of the likely volume of business operations and its effect on the financial strength of the enterprise. They are reflected in such statements as sales and advertising budgets, capital budgets, etc.

Comparatively little of the results of market surveys and advance planning undertaken by business firms is published. Still, a fair idea of economic, market and financial analysis done by industry can be gleaned from a study of company reports to shareholders and some of the addresses of the presidents and general managers of the larger firms. Particularly revealing are the annual addresses of the presidents and general managers of most of Canada's chartered banks, whose annual statements have in recent years contained important pronouncements about where the Canadian economy is heading and what some of its major problems are.

The Canadian Chamber of Commerce usually presents in January of each year the results of special surveys of business prospects for the coming year (based on questioning a cross-section of Canadian businessmen and economists), the results being published in the Chamber of Commerce's monthly publication, "Canadian Business." Some organizations representing particular industries have in recent years commenced to publish information on their assessment of the volume of business operations that their industries can reasonably expect for the year ahead. An example is the annual address of the President of the Newsprint Association of Canada and the reference book published by the Association, which contains information on expected capacity and anticipated demand for the coming year. Year-end statements reviewing the economic achievements of particular industries and their outlook are being released in increasing numbers by various business associations,(1) and large individual corporations, both private and public.(2)

Business papers publish the results of surveys of the short-term economic and market outlook. The Financial Post, for example, usually includes in one of its December issues a comprehensive survey of executive opinions about business prospects for the coming year. A similar survey expressed in quantitative terms and covering such items as the volume of production, raw material orders, size of labour force, hourly wages, employer-employee relations, investment in new physical facilities, prices, and company earnings before taxes is conducted by the School of Business Administration of the University of Western Ontario. A number of financial

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(1) Such organizations include the Canadian Construction Association, the Canadian Lumbermen's Association, the Canadian Petroleum Association and the Rubber Association of Canada.
(2) Examples of companies are: The International Nickel Company of Canada, Limited, Aluminum Limited, The Consolidated Mining & Smelting Co. of Canada, Limited, Imperial Oil Limited, Canadian Pacific Railway Company, Canadian National Railways, Polymer Corporation Limited, and The Hydro-Electric Power Commission of Ontario.

houses prepare economic outlook appraisals at regular intervals, which they make available to their clients and to the public on request. There are also a number of advertising, marketing research and consulting firms which undertake various economic surveys and appraisals for their clients.

<u>Short-term Economic Appraisals by Canadian Government</u>. In their endeavours to appraise business prospects for the coming year, private organizations can draw on a good deal of information on this subject made available by various Canadian government sources. Comprehensive surveys of the economic outlook for a year ahead are undertaken by the federal government on a continuing basis. The work involves a number of surveys covering investment intentions, trade and balance of payments prospects, government expenditure plans, employment expectations, industry, commodity and area studies, and the appraisal of the results of these various surveys in the light of current economic trends and attitudes of businessmen, farmers, trade unions and governments. The work is done largely in the Department of Trade and Commerce, in conjunction with a number of other government departments, particularly the Departments of Finance, External Affairs, Defence Production, Labour, Agriculture, and the Bank of Canada, Central Mortgage and Housing Corporation, and the Dominion Bureau of Statistics. Business executives, business and labour economists, financial and agricultural experts, and provincial government officials are consulted from time to time, and close touch is kept with economic developments abroad, particularly in the United States and the United Kingdom.

The work is primarily designed to provide the government with background economic information as an aid in its endeavours to formulate economic policies. The government decides what parts of its outlook appraisals it is prepared to use, and its decisions are reflected, among other things, in such statements as the review of the state of the Canadian economy which the Minister of Trade and Commerce customarily presents to Parliament at the beginning of each session, the year-end economic appraisal released by the Minister of Trade and Commerce each December 31, and the White Paper on the investment outlook usually tabled by the Minister in the House of Commons in February or March of each year, followed by a further review at mid-year. The Minister of Finance in his annual budget usually deals with the economic situation and economic outlook. It has been his practice to indicate the level of the gross national product that can reasonably be expected for the current year and on which his revenue estimates are based. Two budget White Papers containing the most up-to-date summary of economic indicators and of budgetary data are tabled in the House of Commons the day before the budget address is given. The Minister of Labour usually includes in his year-end address some reference to the economic situation and economic outlook as it affects labour. The Minister of Agriculture towards the end of each year meets with provincial government officials and agricultural representatives, and the conference discusses the agricultural outlook for a year ahead, with the findings of the conference being made public. There are thus at least four cabinet ministers who regularly make statements on the current Canadian economic situation and outlook. There are also a number of other ministers who from time to time deal with this subject as it relates to the operations of their departments. Such forward-looking economic appraisals are supplemented by comprehensive and up-to-date statistics on employment, income, output, industrial activity, prices, etc., published by the Dominion Bureau of Statistics and by specialized economic information made available on a monthly or quarterly basis by such government agencies as the Bank of Canada and Central Mortgage and Housing Corporation.

This brief summary of what business, universities and governments are doing in the field of short-term market and economic analysis is perhaps indicative of the increasing importance which responsible management and government in Canada are placing on as clear an understanding as possible of the basic economic forces at work in their country, and their endeavour to take account in formulating policies of the ever-changing complexities of the Canadian market and the Canadian economy.

<u>Long-term Economic Appraisals of Canada in an Early Stage of Development</u>. Though progress has been rapid in Canada in developing and making use of market and economic surveys for the short term, from three months to a year, long-term market and economic appraisals in this country

are still in an early stage of development. Appraising Canada's long-term economic outlook is quite different and distinct from an analysis of the economic forces that shape the short-term market. It is one thing to appraise the economic outlook, say, for a year ahead where the analyst has the benefit of a number of surveys pointing to the strength or weakness of the economy, and where he has every opportunity to acquaint himself with current market trends and the economic climate. But when it comes to long-term economic appraisals, say five, ten, twenty, or twenty-five years hence, most of the tools that are available for short-term analysis are lacking. The objectives of long-term market and economic appraisals must therefore of necessity be much more modest.

All that long-term market and economic appraisal can do - at least in the present stage of development - is to point to the kind of economy a country may reach at certain times in the future, assuming certain rates of growth. The rates of growth assumed will vary depending on the purpose of the analysis, the degree of familiarity with past long-term economic trends, and the judgment the investigator formulates about the character of the basic economic forces affecting Canada's future expansion. Long-term market and economic appraisals are not forecasts of the sales volume or level of economic activity a number of years hence, but rather illustrations of what continuing growth of the economy might mean if reasonably "full" use of existing capacity is made in terms of aggregate demand and possibly in terms of the potential market for particular commodities.

Some surveys of the long-term growth of the Canadian market and the economy as a whole have been made by a number of the larger corporations and business groups in Canada to assist them in formulating their long-range expansion plans.(1) Members of the Canadian government have also made statements about the possible growth of the Canadian economy to indicate the opportunities which Canadian business and individuals might have to prosper in an expanding economy.(2) Some professional papers have also been written on this subject.(3) But on the whole long-term economic and market appraisals in Canada are still in an early stage of development, and they have followed pretty closely the pattern laid down by much more

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(1) See, for example, "The Next Quarter Century," an address by R.M. Sale, the President of Ford Motor Co. of Canada, Limited, Halifax Board of Trade, January 20, 1953; address by T.J. Emmert, Executive Vice-President of Ford Motor Co. of Canada, Limited, Annual Conference of Canadian Purchasing Agents, in Detroit (as reported in the Financial Post, November 28, 1953); "Where We Are Going From Here," an address by E.C. Row, President and General Manager, Chrysler Corporation of Canada, Limited, Rotary Club of Windsor, Ontario, November 23, 1953; an address by H.M. Turner, President of Canadian General Electric Co., Limited, Canadian National Exhibition, Toronto, "Canada - By 1960" (published in Electrical News and Engineering, September 15, 1951); "A Long Look Ahead," address by R.M. Fowler, President, Canadian Pulp and Paper Association, Annual Luncheon of the Association, Montreal, January 29, 1954.

(2) Statements by government leaders include addresses by the Prime Minister to the Annual Meeting of the Canadian Federation of Agriculture, Montreal, January 22, 1952, and to the Canadian Club, Ottawa, January 16, 1953; statements by the Minister of Trade and Commerce, "Canada's Economic Future," New York Town Hall Lecture (published in the proceedings of the Conference under the title, "Canada: Nation on the March," Clarke, Irwin & Company Limited, Toronto, 1953) and "Canada in 1963" (booklet published by Gairdner & Company Limited, Toronto, 1954); and statement by the Minister of Citizenship and Immigration over the C.B.C. Network, Ottawa, May 4, 1954 (as reported by the Montreal Gazette, May 5, 1954).

(3) See, for example, "The Canadian Market in 1980," Monthly Review of the Bank of Nova Scotia, Toronto, June-July, 1953, and addresses by O.J. Firestone, including "Canada's Long-Term Economic Outlook," Industrial Engineering and Management Section of the Engineering Institute of Canada, Montreal, December 4, 1952 (published in the Engineering Journal, April 1953, pp. 402 ff.), "Appraising Canada's Short Term and Long Term Economic Outlook," Dominion Bank Men's Association, Toronto, January 13, 1954, "Canada's Growing Market and Retail Trade," 12th Annual Conference of the Canadian Retail Federation, Scarboro, Ontario, May 3, 1954, and "Canada's Growing Economy and Energy Requirements," 47th Annual Convention of the Canadian Gas Association, Banff, June 23, 1954.

comprehensive surveys undertaken in the United States.(1)

This chapter is concerned with illustrating some of the growth possibilities of the Canadian economy and the Canadian market over a long period ahead. Its main purpose is to present a pattern of analysis and a set of assumptions which make it possible to arrive at an estimate of the magnitude of the Canadian market a number of years hence, and to present possible alternative make-ups of the market. By varying the pattern of analysis and the basic assumptions, different estimates of the dimension and composition of Canada's future market will be reached. Therefore it is important to remember that figures of the growth potential of the Canadian market given in this chapter are nothing but a quantitative illustration of a range of growth possibilities that appear to exist and that may be reached in different ways and at different times.

Basic Factors Shaping the Canadian Market of the Future

How big the Canadian market actually will be a number of years hence, say 1975, no one can tell. But certain generalizations about the basic factors contributing to its future growth and pattern are possible.

(1) Domestic Market May Grow More Rapidly Than Foreign Markets. The Canadian market is defined here as the aggregate value of all goods and services produced in the country (i.e., gross national expenditure which equals gross national product, see p. 135). It therefore covers both purchases made by Canadian residents (domestic sales) and by foreign residents

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(1) Some of the comprehensive studies published in the United States include: Annual Reports of the Council of Economic Advisers and of the Joint Congressional Committee on the Economic Report, particularly the studies issued by the latter, Sustaining Economic Forces Ahead, Washington, 1952, and Potential Economic Growth of the United States During the Next Decade, Washington, 1954; U.S. Department of Commerce, Markets After the Defence Expansion, Washington, 1952; Report of President's Materials Policy Commission, Resources for Freedom, Washington, 1952 (Paley Report); Gerhard Colm, with the assistance of Marilyn Young, The American Economy in 1960, National Planning Association, Washington, 1952; Dewhurst, J.F., and associates, America's Needs and Resources, a Twentieth Century Fund Survey, New York, 1947; American Newspaper Publishers Association, "Newsprint Now and in the Next Decade," New York, 1951; National Bureau of Economic Research, Long Range Economic Projection, Studies in Income and Wealth, Vol. 16, New York, 1954, and Address by the President of the United States to the Eleventh Annual Dinner of the National Security Industrial Association, as reported by the New York Times, October 26, 1954, p. 22.

(exports). The domestic market has grown more rapidly than Canada's foreign markets, and this trend may continue. Between 1929 and 1953 the domestic market (as reflected in gross national expenditure minus exports of goods and services) has increased at an annual average rate of 3.72 per cent (compound), as against 2.62 per cent for the exports of goods and services and 2.75 per cent for the exports of goods alone.

Among the reasons supporting a more rapid expansion of Canada's domestic market than of her foreign markets are the following: continuation of fairly rapid population growth, discoveries of new resources and the further development of proven high quality resources, and technological advances which may turn out to be of particular advantage to the industrial development and diversification of a country whose main handicaps in the past have been a northern climate, rugged terrain, great distances to markets, and a widely scattered and on the whole sparsely settled population.

As to the rate of expansion of foreign markets, this rate is likely to be affected by economic, political and social forces which in some respects appear to have been moving in opposite directions. On the one hand, in the post-war period a tendency toward a freer international exchange of goods has been evident, and though this trend has at times been slow and halting, nevertheless it has been a distinct contrast to the generally restrictive trading climate prevailing before World War II. Then, too, the fact that the world's population is growing and that nations tend to encourage the development of domestic industries is likely to increase the opportunities of the world for a greater international exchange of food and basic materials in both raw and processed form. The process of industrialization itself is likely to increase the international demand for manufactured products, particularly capital goods. But as domestic industries in many countries develop and expand, the tendency might be to discourage the importation of some manufactured items, particularly those of the basic consumer goods variety. Given the natural desire of many nations to develop strong domestic industries, coupled with intermittent exchange crises and international trade conflicts, sheer realism suggests that Canada's foreign markets over the next several decades may not grow as rapidly as her domestic market.

(2) Fluctuations of the Canadian Market. The point has been made in Chapter 1 that the Canadian market has grown by leaps and bounds though in so doing has undergone fluctuations of varying magnitudes and at different intervals. The past record covering the experiences of the first half of the 20th century suggests that the chances of Canadian businessmen in facing a rising market as against a declining market have been four to one. This has been the situation in aggregate terms - it would be different for individual industries and for particular commodity markets. Whether the odds will be five to one or three to one in the next several decades no one can tell. But two tendencies can be noted: first, the Canadian market is likely to fluctuate in the future as it has in the past, though the degree of fluctuation is likely to be less, and second, there are some prospects for an improvement in the odds anticipating expanding markets. Some of the factors pointing towards these possibilities are:

(a) There is in the free world greater international and national consciousness of how economies operate, what the price of depression is, and how easily it can be transmitted to other countries and then re-transmitted in cumulative fashion to the countries which in the first place endeavour to "export" unemployment.(1) It is doubtful whether the nations have learned fully the fallacies of "beggar-my-neighbour" policies, so prevalent in the world-wide depression of the 'thirties, but at least there is now greater consciousness than there ever has been before of the economic interdependence of the free world.

(b) There is also greater awareness on the part of business firms, trade unions, farm groups, and national, regional and local

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(1) For example, if Country A reduces imports from Country B, unemployment in Country B may rise. Then Country B may be buying less from Country A. Country A might have been able to increase employment as a result of reduced imports from Country B. But it in turn may have an increase in unemployment as a result of reduced purchases by Country B. By interfering with the natural flow of international trade, both Countries A and B may be worse off: they may be producing domestically at higher prices articles which they hitherto imported, without actual gain, and possibly a loss, in the national level of employment.

governments of the kind of economic problems that a country faces. This has led to endeavours to appraise future economic conditions and market prospects in as effective and systematic a manner as possible, and to consider in advance ways and means to cope with problems as they arise.

(c) There has been a substantial change in the composition of demand which determines both the size and the make-up of the Canadian market. Governments play now a much larger part as buyers of goods and services than before. Even with some decline of military expenditures, governments are likely to continue to represent a more important demand factor in the Canadian market than they have in earlier periods of this country's history, in view of the increased demand for public services and public projects. Also, demand by consumers, farmers and fishermen and other groups is being stabilized to some extent by means which were largely unknown in Canada before World War II, e.g., universal family allowances and old age pensions, farm and fisheries price supports. In general government expenditures are so constituted that sizeable absolute declines are unlikely in the face of a downturn in general economic activity, and so they may be expected to act as a support contributing to the maintenance of adequate levels of economic activity.

(d) Over the past twenty-five years income has become somewhat more equally distributed and per capita and per family real income has significantly increased. In Canada consuming units, particularly the households, are in a much stronger position to make effective their demands for goods and services as the margin between their actual incomes and a subsistence level of income has widened. In part, this is the result of increased opportunities for more than one member of the family to work and to contribute to the household budget.

(3) Varying Rates of Market Growth. The Canadian market has grown in the past at varying rates over longer periods of time allowing for both ups and downs. It is likely to do so again. The reasons include

not only the dynamics of population growth, discovery and development of natural resources, and the introduction of technological innovations. Another important and basic reason goes further and is to be found in the private enterprise character of the Canadian economy. With governments concentrating mainly on creating in the country an economic climate favourable to individual initiative and private ventures, it is mainly the judgment and action of private individuals that determines the rate of economic progress in Canada in all periods except a major war. In an emergency government direction and controls may replace a great deal of private initiative and the nation may for a number of years work in forced draft. In such a period the private enterprise character of the Canadian economy and the free working of the market forces may to a large extent be temporarily suspended.

(4) The make-up of the Canadian market has been changing and this trend is likely to continue. Business investment and government expenditures have become more important relative to consumer expenditures. The growth in the relative importance of investment expenditures has been a major factor in improving productivity, that is, in raising the contribution of each member of the labour force toward total output. Some government expenditures also contribute to improving productivity by raising to a higher level and diffusing technical and professional skills through vocational training, and by offering more widespread facilities for general and specialized education.

A major shift in the composition of the consumer market has also taken place, with a lesser proportion of incomes devoted to the necessities of life and a greater proportion to achieving better and more comfortable living, greater human progress and greater security. Among the reasons for expecting continuing changes in the make-up of the Canadian market are an upgrading in both real earning power and the absorptive capacity of the buying public. Earning power is likely to continue to rise, as the nation's productivity increases and as long as Canada is in a position to exchange her exportable surpluses at reasonable terms against the exportable surpluses of other countries. As the earning power of Canadians rises so does their ability to spend. Unless there are substantial changes in the savings habits of Canadians - and these are unlikely except in major emergencies such as an all-out war - the Canadian public can be counted upon over the long run to have at their disposal larger incomes in real terms to spend on increasing quantities of consumer goods and services. The amount of food eaten, the number of suits or dresses worn, and the number of rooms lived in are limited in a practical sense. If historical experience is any guide, we might expect that the portion of income spent upon the basic necessities will decline, though a possible shift to a higher quality type of purchase could be a factor mitigating such a trend. But even a declining proportion of the family budget spent on basic consumer goods and services will mean increased expenditures in absolute terms because of the expectation of a further substantial expansion of the total market for consumer goods and services in Canada. On the other hand, there seems to be little limitation on the desire of Canadians to increase their enjoyment of the material comforts and aesthetic pleasures of life.

To re-state: over the next several decades the Canadian market is likely to continue to grow, with the domestic part probably growing somewhat more rapidly than its foreign counterpart. This growth may be interrupted at times by temporary turn-downs, and the expansion may take place at varying rates over longer periods of time. The make-up of the market is also likely to change as consumers, business, governments and foreign buyers make varying demands on the nation's output and new wants develop.

Methods of Making Economic Projections

Basic Assumptions. It is now possible to state three basic assumptions on which the appraisal of the long-term growth of the Canadian market is based in this chapter:

(1) That the Canadian economy will retain its basic private enterprise character;

(2) That the Canadian market will continue to grow notwithstanding some interruptions in that process of further expansion and reorienta-

tion, and that the economy will operate at a high level;

(3) That there will be no all-out war, but that the international uncertainties will continue, necessitating a greater degree of defence preparedness than the free nations of the world were accustomed to and found necessary to maintain before World War II. However, this may involve the devotion of a lesser proportion of their national output for military purposes than was the case during the duration of the war in Korea.

Selection of a Future Base Year. The next step is to select a year or a period as a base year or base period to give the market analysis some concreteness. The year chosen in this appraisal is 1975. For other types of appraisals an earlier year, say 1960 or 1965, may be desirable. The reason for choosing 1975 is that it is a convenient time mark, three-quarters of the way along the twentieth century. The intervening period is long enough to include, quite likely, sub-periods of several different rates of economic growth (see page 91). But not only are the rates of growth in sub-periods likely to vary, the range of possibilities of variations in the average rate of growth for the period as a whole is great. Thus, if some feasible higher rates of economic growth materialize, the size of the market which Canada may reach in 1975, suggested further on in this chapter, may in fact be reached earlier. On the other hand, if some of the slower rates of economic expansion which are mentioned should determine Canada's economic progress over the next few decades, then the size of the Canadian market indicated may not be reached until several years later than 1975.

There are many other factors why the assumed size of the Canadian market may either be reached earlier or later than 1975. One important factor is the degree to which Canadians will be making use of their resources, both human and physical, the latter covering both the nation's capital (industrial and commercial installations and other private and public facilities) and natural resources. Another factor could be the changes in productivity which might accompany substantial industrial applications of atomic energy or other major technological innovations.

The analysis presented here of what the Canadian market may be like in 1975 is based on the assumption of a high level of economic activity. But if 1975 turns out to be a year of declining economic activity and therefore below the norm assumed, it may take several years until full recovery has set in and a high level of employment and income has again been reached.

It is therefore important to remember that the year 1975 has been selected as a convenient bench mark, but that the estimates presented here may in fact reflect the kind of market which Canadians may reach somewhere during the decade of the 1970's.

<u>What Is Meant by "High Level" of Economic Activity?</u> Reference has been made above that the analysis of the growth potential of the Canadian market is based on the assumption of a high level of economic activity. What is meant by "high level"?

This term is applied here to the Canadian economy if the latter is reasonably well in balance in terms of supply and demand, with prices comparatively stable and manpower resources fairly well employed, with due regard to seasonal and frictional unemployment, that is, unemployment associated with an orderly industrial adjustment quite common in a private enterprise economy. In other words, an economy may be described as operating at "high levels" if employment opportunities are sufficiently ample so that persons losing a job in one industry or one locality can expect to find, within a reasonable period of time, another job in another industry or locality in all periods except the winter months. For Canadians, living as they do in a northern climate, must expect a somewhat greater amount of seasonal unemployment than people in other countries with rather more favourable weather conditions. A certain amount of slack in the Canadian economy appears to be unavoidable in the off seasons, even though the latter could be reduced somewhat when the pressure of demand for labour is particularly strong and special efforts are made by both industry and governments.

While a "high level" of economic activity can be described fairly easily in general terms, it is much more difficult to express this concept in quantitative terms. One way of expressing a "high level" of economic activity numerically is to do it in terms of the proportion of the labour force employed (or unemployed) and the output which a given number of persons working may produce.

The great danger of such an attempt to describe quantitatively a "high level" of economic activity is that it may be interpreted as setting out yardsticks of what are desirable levels of employment and output or what are acceptable levels of unemployment and what are not. Such notions as "full employment", "high levels of employment", and "undesirable levels of unemployment" are highly emotional concepts that are subject to widely varying interpretation and policy recommendations for action or inaction, as the case may be.

Emotionalism apart, the fact of the matter is that there is no country with a predominantly private enterprise economy where there is a universally accepted standard of what represents a tolerable level of unemployment and when a given level of employment should be described as "full", "high" or "less than high". Since this is the situation in Canada,(1) as in many other free nations, the data shown below illustrating varying levels of economic activity should be regarded as nothing but a statistical

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(1) The Canadian Government has not found it practical to adopt as a basis for the formulation of general economic policies any arithmetical formulation of what constitutes a "full" employment or "high" employment economy. The Government's attitude is illustrated in the following extract from a submission to the United Nations: "The Canadian Government is of the opinion that the principle of fixing general employment objectives is most desirable, but, for several reasons, has not set precise quantitative employment standards. One reason the Canadian Government has not set a quantitative employment standard is that it may lead to an over-emphasis on one objective. There are other economic goals which may be as important as the full employment goal . . . higher standards of living, economic stability, . . . Another reason such a standard has not been established is that the Canadian economy is a rapidly expanding one. Moreover, the economy is peculiarly subject to sharp seasonal and climatic variations. It is also dependent to a high degree on crop yields, and on the export of primary staple products to the world market. Because of these variations, an arithmetical employment standard could be a misleading and unsatisfactory guide. A certain level of unemployment might be more serious at one time than at another due to its concentration in a single industry or region, its duration, or because of the economic maladjustments involved." (Canadian reply to Questions 1 to 5 to United Nations Memorandum dealing with implementation of resolutions 290 (XI) and 221 E (IX) of the Economic and Social Council concerning full employment, United Nations, New York, March, 1951.)

exercise designed to indicate the assumptions on which the appraisal of the future growth of the Canadian market is based. The data by no means represent any suggestions of what are "desirable", or "undesirable", levels of employment and income under varying economic conditions.

Table 1 shows the Canadian labour force in 1953, the proportion of persons employed and unemployed and gross national product for that year. Three different percentage figures of unemployed to labour force, together with the gross national product turned out by persons working, are shown, and these three different sets of data are described respectively as "full employment economy", "high level economy", and "less than high level economy." A "full employment economy" is described as one where unemployment averages during a year two per cent or less of the total labour force. This is the kind of situation which Canada experienced under the forced draft of World War II and in the inflationary period following the outbreak of the war in Korea. A "high level economy" is reflected in an economic situation where the number of unemployed may range from two to five per cent of the total labour force. This is the kind of situation which Canadians experienced in the late 'twenties, during some periods of the immediate post-World War II years, and more latterly, in the adjustment period following the ending of the Korean war. A "less than high level economy" is suggested to be represented by a situation where the number of unemployed exceeds on an average 5 per cent of the labour force and may in fact reach as much as 20 per cent. Such a state of affairs existed for a short time in the adjustment period which followed the end of World War I, particularly 1921, and in the 'thirties when unemployment ranged for the most part between 10 and 20 per cent of the labour force.

It is noteworthy how close 1953 was to a "full employment economy." The gross national product for that year is estimated at $24.3 billion. Had unemployment for that year averaged 2 per cent, rather than 2.4 per cent, then the gross national product would have been only slightly greater, over $24.4 billion. On the other hand, if a "high employment economy" covers as wide a range of unemployment as 2 to 5 per cent of the labour force, then a slightly smaller gross national product than was actually achieved in 1953 would have been feasible without representing a serious setback to Canadian economic expansion, the lower range of the figure being $23.7 billion. If one were to interpret the figures for gross national product for 1975 shown later on in terms of the actual 1953 experience, one could say that a "high level economy" as defined in this chapter would have covered a gross national product ranging from $23.7 billion to $24.4 billion, with a mid point around the $24 billion mark.

Reference has been made to the importance of the seasonal influences on the levels of employment and unemployment in Canada. These are illustrated in Table 2. Again, actual experience in 1949 to 1954 is compared with some hypothetical figures illustrating seasonal variations in a "full employment economy", "high employment economy" and "less than high economy."

The interesting point is that in a "full employment economy" the 2 per cent annual "average" unemployment level (as reflected by the average of four quarterly figures) may be the resultant of as low a level of unemployment as one per cent in the summer months and as high a level of unemployment as $3\frac{1}{2}$ per cent in the winter months. If "high employment" is assumed to include a range anywhere from 2 to 5 per cent of the labour force as unemployed on an "average", then there may be variations at its lowest point from a little over one per cent in the summer months to as much as 7 per cent at the highest point in the winter months. Thus, it is important to distinguish between spot observations which may indicate either very high or very low levels of unemployment from the employment situation for the year as a whole, which will be somewhere between the two extremes of seasonal high and low points. In other words, even as high a level of unemployment as 7 per cent in a particular winter month does not necessarily mean that the economy is not continuing to expand, seasonal influences apart. To eliminate the effect of seasonal influences, this study uses as the basis for analysis an annual "average" ratio of employment and unemployment to the labour force. The ratio assumed in this chapter as covering a "high employment economy" is the range of 95 to 98 per cent of the labour force, or representing unemployment of

TABLE 1.- LABOUR FORCE, EMPLOYMENT, UNEMPLOYMENT, AND GROSS NATIONAL PRODUCT, CANADA, ACTUAL AND HYPOTHETICAL, 1953.

Levels of Employment	Labour Force(1) Thous.	Employment(1) Thous.	Unemployment(1) Thous.	Unemployment as a Per cent of Labour Force	Gross National Product $ Billions
Actual	5,438	5,306	132	2.4	24.3
Hypthetical					
"Full" Employment Economy	-	5,329	109	2.0	24.4
"High" Employment Economy	-	5,248	190	2.0-5.0	24.1(2)
"Less than High" Employment Economy(3)	-	4,350-4,894	544-1,088	Over 5.0	19.9-22.4

Source: Labour Force and Gross National Product data for 1953 from Labour Force Surveys and National Accounts, Dominion Bureau of Statistics.

(1) Quarterly average.
(2) To compute Gross National Product, employment was assumed to be 96.5 per cent of the Labour Force.
(3) Assumes a range of from 80 to 90 per cent of the Labour Force employed.

TABLE 2. - UNEMPLOYMENT AS A PER CENT OF THE LABOUR FORCE, SEASONAL PATTERN, CANADA, SELECTED YEARS, ACTUAL 1949-1954 AND HYPOTHETICAL.

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Average
1949 Actual	4.05	1.99	1.86	2.82	2.68
1950 Actual	6.07	2.81	1.92	2.22	3.26
1951 Actual	3.31	1.54	1.42	1.86	2.03
1952 Actual	4.05	1.99	1.58	2.15	2.44
1953 Actual	3.45	2.14	1.67	2.84	2.53
1954 Actual	5.97	4.02	3.12	3.95	4.27
Hypthetical Seasonal Pattern in:					
"Full" Employment Economy	3.5	1.5	1.0	2.0	2.0
"High" Employment Economy	3.5-7.5	1.5-4.0	1.0-3.5	2.0-5.0	2.0-5.0
"Less than High" Employment Economy	Over 7.5	Over 4.0	Over 3.5	Over 5.0	Over 5.0

Source: Data for 1949 to 1954 from Quarterly Labour Force Surveys, Dominion Bureau of Statistics, March 1954 and the May, August and November, 1954 issues.

2 to 5 per cent of the labour force. Gross national product is calculated on a mid-point of 96.5 per cent of persons in the labour force employed year-round and $3\frac{1}{2}$ per cent unemployed.

Five Economic Variables Affecting Gross National Product in 1975

The size the Canadian market may possibly reach by 1975 is presented in this chapter first in the form of estimates of the gross national product and then in the manner in which the gross national product(1) may be distributed among various buyers of goods and services.

To present an estimate or a series of estimates of the gross national product for 1975, assumptions of the rate of growth of at least five key economic factors are needed: (1) population, (2) labour force, (3) persons employed, (4) hours worked per week, and (5) output per man hour (to measure changes in productivity).

Canada's Population

A number of statements have been made in Canada about the size of the population which this country might reach a number of years hence. They vary substantially. The Prime Minister on one occasion mentioned that Canada's population may well reach 35 million by the end of the century.(2) This reference implies an annual average rate of increase of 1.85 per cent (compound). On another occasion the Minister of Citizenship and Immigration spoke of Canada's population possibly reaching the 23 million mark by 1974.(3) This estimate implies an annual average increase of 2.13 per cent (compound).

The Dominion Bureau of Statistics has produced population projections for the year 1971 showing that Canada's population may reach in that year a level ranging from 21 million to 24 million.(4) The annual growth ratios implied are 1.97 per cent and 2.73 per cent (compound) respectively.

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(1) The terms "gross national product" and "gross national expenditure" are used interchangeably.
(2) Address by the Prime Minister to the Annual Meeting of the Canadian Federation of Agriculture, Montreal, January 22, 1952, p. 4.
(3) Address by the Minister of Citizenship and Immigration over the C.B.C. Network, Ottawa, May 4, 1954, op. cit. p. 4.
(4) Social Implications of 1951 Census of Canada, Statistical Data for Round Table Discussion, the School of Social Work, University of Toronto, November 20 to 22, 1953, p. 8.

Among private investigations, an example is the study of the Chrysler Corporation of Canada which includes a population projection for 1971 of 19 million.(1) This estimate indicates an annual average increase of 1.40 per cent (compound).

One way of choosing an appropriate rate of population growth is to examine past rates of growth and to consider some of the factors that may be influencing the expansion of Canada's population over the next few decades.

Table 3 provides such information for various phases of the period 1900 to 1953. Three annual average rates of population growth are of particular interest: a rate of slow growth, from 1929 to 1953, 1.52 per cent (compound), and a rate of rapid growth, from 1945 to 1953, 2.23 per cent. The long-term rate of population growth from 1900 to 1953 is represented by an intermediate rate, 1.92 per cent. The estimates by various sources mentioned above appear to fall within this range, except Chrysler Corporation and the higher of the two Dominion Bureau of Statistics projections which are somewhat below or above the range from 1.52 to 2.23.

Looking ahead to 1975, some variations in the rate of population growth must be expected. Here are some reasons:

(1) Birth Rate. Canada's birth rate is currently much higher than it used to be before the war. This trend may continue, though a temporary decline in the birth rate appears to be in the offing some time during the next decade. The main reason is that the birth rate in the 'thirties was comparatively low, and this will affect the number of persons reaching marriageable age in the latter part of the 'fifties and in the first half of the 'sixties. On the other hand, the much higher birth rate during the war and post-war period is likely to continue to contribute to a substantial increase in the potential number of persons ready to get married in the second half of the 'sixties and in the early 'seventies. Changes in marriage rates in turn will affect the birth rate in the years following marriage.

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(1) Address by Mr. E.C. Row, President and General Manager, Chrysler Corporation of Canada, Limited, Windsor, Ontario, November 23, 1953, p. 4.

TABLE 3. - POPULATION AND GROSS NATIONAL PRODUCT IN 1953 DOLLARS PER MAN-YEAR, CANADA, SELECTED PERIODS, ACTUAL AND ASSUMED, 1900 - 1975.

Item	Population	Real Gross National Product in Constant Dollars per Man-Year
	Per cent	
Annual Compound Rate of Increase -		
1900-1953(1)	1.92	1.47
1929-1953(1)	1.52	2.03
1945-1953(1)	2.23	2.94
1953-1975	1.91	2.00
	000	$
Total Number -		
1953	14,781	4,561
1975 - Rapid Rate(2)	23,996	8,449
Slow Rate(3)	20,615	6,288
Assumed Rate(4)	22,395	7,051
	Per cent	
Total Increase -		
1953-1975 - Rapid Rate(2)	62	85
Slow Rate(3)	40	38
Assumed Rate(4)	52	55

Source: Estimates of population increase from 1900-1953 and of Gross National Product for 1929 to 1953 from Dominion Bureau of Statistics; estimate of Gross National Product for 1900 is preliminary and is from "Canada's Economic Development, 1867-1952", by O.J. Firestone, paper prepared for the Third Conference of the International Association for Research in Income and Wealth, Castelgandolfo, near Rome, Italy, September 1-6, 1953.

(1) Excluding Newfoundland.
(2) 1945-1953 rate of increase.
(3) 1929-1953 rate of increase.
(4) 1953-1975 rate (see text).

(2) Death Rate. The Canadian death rate has been declining fairly steadily in non-war periods, and assuming no third world war, this trend is likely to continue. Two reasons are: greater medical advances and improvement in nutrition and living standards.

(3) Immigration. Immigration into Canada has varied between 64,000 and 194,000 in the post-war period, the highest absolute levels except for a few years in the pre-World War I period. The buoyancy of the Canadian economy made it feasible to absorb this number of immigrants fairly readily. In the past the level of immigration has varied with the level of prosperity enjoyed in the country. Thus immigration was at a high rate when the economy was expanding rapidly and at a low rate when the economy was expanding slowly or contracting. Since at one time a slowing down and at another time a speeding up of the rate of growth of the Canadian economy is expected, if the population pattern suggested above materializes the level of immigration may also fluctuate.

(4) Emigration. Emigration from Canada varied between 39,000 and 78,000 in the post-war period, or between 0.3 and 0.6 per cent of the Canadian population total. As the Canadian economy continues to expand, the opportunities for most Canadians to do well in their own country are likely to increase. Barring a serious depression, emigration is not likely to be much outside the percentage range indicated above in the foreseeable future.

To allow for the varying factors determining the rate of growth of the Canadian population, the following assumptions are made here:

1954 and 1955 - continuing rapid rate of expansion.

1956 to 1965 - slow rate of expansion.

1966 to 1975 - resumption and continuation of rapid rate of expansion.

The delineation in terms of years of a change-over from rapid to slow growth and then back to rapid growth is completely arbitrary. Changes in the rates of growth may occur sooner or later than indicated above. They are assumed here solely as a means of illustrating that

Canadians should not expect their economy and their market to grow at an even rate over the next two decades or so.

A combination of the varying rates of population growth suggests an annual average rate of 1.91 per cent (compound) for the period 1953 to 1975. This rate is almost identical to the long-term rate of growth of Canada's population, from 1900 to 1953, which amounts to 1.92 per cent (compound). Of course, in absolute terms the population increase would be much greater because Canada's population now is three times what it was at the beginning of the century.

The Canadian population numbered 14,781,000 at mid-1953, with the 15 million mark being passed by the end of the year. Depending on the rate of growth assumed, Canada may have a population in 1975 varying between 20.6 million and 24 million. On the basis of the intermediate rate of growth assumed in this study, Canada's population in 1975 may be close to $22\frac{1}{2}$ million (see Table 3). To put this projection in terms of family units, in mid-1953 there were 3,477,000 families in Canada, and it seems reasonable to expect that the number will approximate 5,500,000 by 1975. The age composition of the 1975 population may be featured by a slight increase in the relative size of the younger and older groups, that is, the under 20 and the 60 and over groups.(1)

Factors Affecting Output

Canadian Labour Force and Employment. Canada's labour force(2) has at times grown more rapidly than population, at other times less rapidly. For example, in 1900 the labour force was estimated to comprise 34.7 per cent of Canada's population. In 1929 the proportion was up to 39.3 per cent, and when World War II ended in 1945 the ratio was as high as 43.2 per cent. Since then there has been some decline in the proportion as many younger people went back to school or university, older persons went into retirement, and a number of married women returned to their household duties.

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(1) For supporting evidence as to age composition of the Canadian population, see Social Implications of the 1951 Census of Canada (p. 8), which contains an estimate of age distribution in 1971.
(2) The labour force is composed of persons in civilian employment and in the armed forces and those without jobs and seeking work.

The labour force comprised 38.5 per cent of total population at mid-1950, just before the war broke out in Korea. Notwithstanding the increasing pressures for manpower resources that followed the expanding defence preparedness program, the labour force in relation to population declined, reaching 37.4 per cent in mid-1952 and then going down further, to 36.3 in mid-1954.

The main reason for the increase in the relative size of the labour force in the first half of the century - there have been temporary interruptions in this upward climb of the ratio, as Table 4 shows - was the increased availability of and improved opportunities for married women to work outside their households. Increased mechanization of the household, the extension of school age for children, easier shopping facilities and greater concentration of families in urban areas has made it possible for many more married women to seek employment. More favourable attitudes on the part of management to married women workers and higher pay scales made it both attractive and possible for many married women to find jobs.

Looking ahead, the question is, will the decline in the ratio of labour force to population indicated for the post-World War II period continue on in the next two decades or so, or might it be reversed. The assumption made here is that such a reversal is likely to take place as the long-term trend observed in the pre-war period reasserts itself. However, only a modest change in the ratio itself is assumed for 1975, 38.5 per cent, reflecting about the situation in 1950, below the ratios indicated for 1929 and 1939 but somewhat above the ratio for 1954.

The thinking behind this assumption is that married women, particularly those in their thirties, forties and fifties, will continue to seek work in large numbers, partly because they can simplify or delegate their household duties, partly because the added income may make possible a notable improvement in the standard of living of the families concerned. As long as husbands in low income brackets and in some medium income brackets are able to look after the necessities of life, the addition of income of a wife tends to make it possible to increase consumer capital outlays, e.g., on homes, household appliances, furniture and motor cars,

TABLE 4. - LABOUR FORCE AS A PER CENT OF THE POPULATION, CANADA, ACTUAL FOR SELECTED YEARS, 1900-1953 AND ASSUMED 1975.

Year	Population Thous.	Labour Force Thous.	Labour Force as a Per cent of Population
1900	5,356	1,861	34.7
1910	7,116	2,801	39.7
1920	8,691	3,279	37.7
1929	10,016	3,934	39.3
1939	11,267	4,607	40.9
1945	12,072	5,219	43.2
1950	13,712	5,278	38.5
1952	14,430	5,401	37.4
1953	14,781	5,487	37.1
1954	15,195	5,504	36.3
1975(1)	22,395	8,622	38.5

Source: Estimates of population 1900-1953 and of labour force 1939-1953 from Dominion Bureau of Statistics; estimates of labour force 1900-1929 are preliminary and are from "Canada's Economic Development, 1867-1952," by O.J. Firestone, paper prepared for the Third Conference of the International Association for Research in Income and Wealth, Castelgandolfo, near Rome, Italy, September 1-6, 1953.

(1) Assumed.

TABLE 5. - GROSS NATIONAL PRODUCT, CANADA, ACTUAL 1953 AND ASSUMED 1975

Year	$ Billions
1953	24.3
1975 - Rapid Rate of Population Growth	61.5
1975 - Slow Rate of Population Growth	53.4
1975 - Assumed Rate of Population Growth	57.5
Total Increase 1953-1975 for:	Per cent
(a) Gross National Product Based on Rapid Rate of Population Growth	153
(b) Gross National Product Based on Slow Rate of Population Growth	120
(c) Gross National Product Based on Assumed Rate of Population Growth	137
Annual Average Compound Rate of Increase 1953-1975 for:	
(a) Gross National Product Based on Rapid Rate of Population Growth	4.31
(b) Gross National Product Based on Slow Rate of Population Growth	3.65
(c) Gross National Product Based on Assumed Rate of Population Growth	3.99
Actual Annual Average Compound Rate of Increase of Gross National Product:	
(a) 1900-1953	3.62
(b) 1929-1953	3.47
(c) 1945-1953	3.34

Source: Estimate of Gross National Product for 1929-1953, National Accounts, Dominion Bureau of Statistics; estimate of Gross National Product for 1900 is preliminary and is from "Canada's Economic Development, 1867-1952", by O.J. Firestone, paper prepared for the Third Conference of the International Association for Research in Income and Wealth, Castelgandolfo, near Rome, Italy, September 1-6, 1953.

as well as to devote greater amounts to the amenities of life and to economic security, from holidays to life insurance.

Another factor would be the increasingly more favourable attitude of management towards work, full or part-time, of elderly people.

There are, however, other trends which work in the opposite direction. One is the trend toward a higher school leaving age as the average level of educational achievement rises. Other examples are a high birth rate which reduces the proportion of those of working age in the population at a given time, and in certain periods a high marriage rate which induces a number of younger women to leave the labour force, some for good, others temporarily.

These two trends moving in opposite directions are likely to cancel each other out to a large extent, with the assumption being made here that there might be a moderate increase in the ratio of labour force to population by 1975 from the comparatively low levels indicated for 1954.

The degree to which the labour force which Canada may have in 1975 will be employed is guided by the assumption, made previously, that economic activity will be at "high levels." To conform to this concept unemployment would have to be within a range of 2 to 5 per cent of the labour force.

On the basis of the above assumptions, Canada's labour force may reach 8,622,000 in 1975 with 8,320,000 persons employed and 302,000 persons unemployed (assuming a mid-point of 3½ per cent of the labour force as being unemployed).

Hours Worked Per Week and Output Per Man Hour. Hours worked per week in Canadian industries as a whole in 1953 averaged between 41 and 45. Wage earners in manufacturing industries averaged 41.3 hours per week. A rough estimate for 1900 suggests an average working week in manufacturing of 56.7 hours. The long-term decline amounts to an annual average of 0.6 per cent (compound) in manufacturing industries. Information on hours worked per week for the economy as a whole is not available for the pre-World War II period. Partial information suggests a fairly consistent trend towards a shorter working week, interrupted at times by such emergencies as a world war or a severe depression as was experienced in Canada in the 1930's. It is assumed in this study that the trend towards a shorter working week will continue during the next two decades or so though it may be slowed down or interrupted intermittently. Combined with the decline in hours worked per week, some continuation of the historical trend of a decline in the number of days worked per year can be expected, as the principle of the annual vacation period which has become generally accepted throughout the economy is still further applied.

The computation of output per man hour data depends on the availability of estimates of average numbers of hours worked per week and per year, and the value of the gross national product for a year. Estimates of output per man hour are feasible for more recent years but not possible at present for earlier periods of Canadian economic history because of inadequate man-hour data for the economy as a whole. What scanty data are available indicate that in very rough terms output per <u>man hour</u> in Canada has risen by about 2 per cent per annum (compound) over the last half century. Allowing, say, about half a per cent for a reduction in the average number of man hours worked per year, this would leave about $1\frac{1}{2}$ per cent representing the increase in output per <u>man year</u> in real terms. (This figure is very close to the rate of increase of 1.47 of output per man year for the Canadian economy as a whole in the period 1900 to 1953, as shown in Table 3.)

The assumption made in this study is that output per man hour will continue to rise over the long term, but that this increase will in part be offset by a decline in the number of hours worked per week and year. The question therefore arises, what annual average rate of increase in output per man year should be assumed to allow for these two trends moving in opposite directions. Table 3 shows three rates in the increase of output per man year: a rapid growth rate of 2.94 per cent per annum (compound) for the period 1945 to 1953, a slow rate of growth of 1.47 per cent (1900-1953), and an intermediate rate of 2.03 per cent (1929-1953).

For the period 1953 to 1975, an intermediate rate of improvement in output per man year of approximately 2 per cent has been chosen.(1) Pressure of demand may be a little less strong on the average over the next two decades than it has been in the immediate post-World War II period and the Korean war period. On the other hand, the shift from low productivity to high productivity industries (e.g., from textile to chemical industries) and industrial diversification is expected to continue. These two factors among others are likely to be responsible for a more rapid increase in output per man year in the second half of the 20th century, as compared with the first half of the century as a whole. It must be remembered that in the earlier part of this century the Canadian economy was dependent to a more important extent on primary industries for its livelihood than on secondary industries, but that the situation is now reversed.

Gross National Product in 1975. The five economic variables affecting the size of the gross national product in 1975 may now be restated as follows:

(1) Population may grow at an annual average rate between 1.52 and 2.23 per cent (compound), with an assumed intermediate rate of 1.91 per cent.

(2) Of the total Canadian population, 38.5 per cent may be in the labour force.

(3) Of the total labour force, $96\frac{1}{2}$ per cent may be employed and $3\frac{1}{2}$ per cent unemployed on an average during that year.

(4) and (5) Hours worked per week may continue to decline, and output per man hour continue to rise, involving an annual average rate of increase of real output per man year of about 2 per cent.

On the basis of these assumptions, gross national product in 1975 may vary between \$53 billion and \$62 billion in 1953 dollars. Assuming an intermediate rate of population growth, with other assumptions remaining unchanged, a gross national product of \$58 billion in 1975 may be expected

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(1) This is the rate of increase in output per man year in the private sector. The actual implicit rate of increase for gross national product as a whole is just under 2 per cent (see footnote 1 on next page).

in comparison with the 1953 figure of slightly more than $24 billion,[1] an increase of 137 per cent (see Table 5). The 1975 estimate suggests a gross national product per capita of $2,578 in 1975 compared with $1,647 in 1953, amounting to an increase of 57 per cent. A roughly equivalent percentage increase in gross national product or expenditure per family may be expected over the period. The market analysis that follows is based then on the assumption that gross national product may reach $58 billion in 1975 (see Figure 1).

The estimates of gross national product in 1975 are expressed in constant terms, that is, in 1953 dollars. This is done to facilitate a comparison of changes in the volume of output and to avoid making assumptions about price changes which for a long period ahead will not be very meaningful. The general observation may, however, be permissible that prices are likely to change in the 22-year period considered here. At times prices may decline, at other times they may rise. On balance the tendency might be in the direction of a higher general price level. That at least has been the Canadian experience during the 20th century so far. If that experience were repeated, gross national product in 1975 in current dollars could be notably higher than is indicated by the figures mentioned above.

In volume terms all the estimates of gross national product for 1975 suggest a better than doubling of the nation's output. On the assumption of slow economic growth - that is, growth based upon a rate of population increase of 1.52 per cent per annum - the annual average rate of increase of gross national product is 3.65 per cent (compound); on the assumption of rapid economic growth - based upon a rate of population increase of 2.23 per cent per annum - the rate is 4.31 per cent; and on

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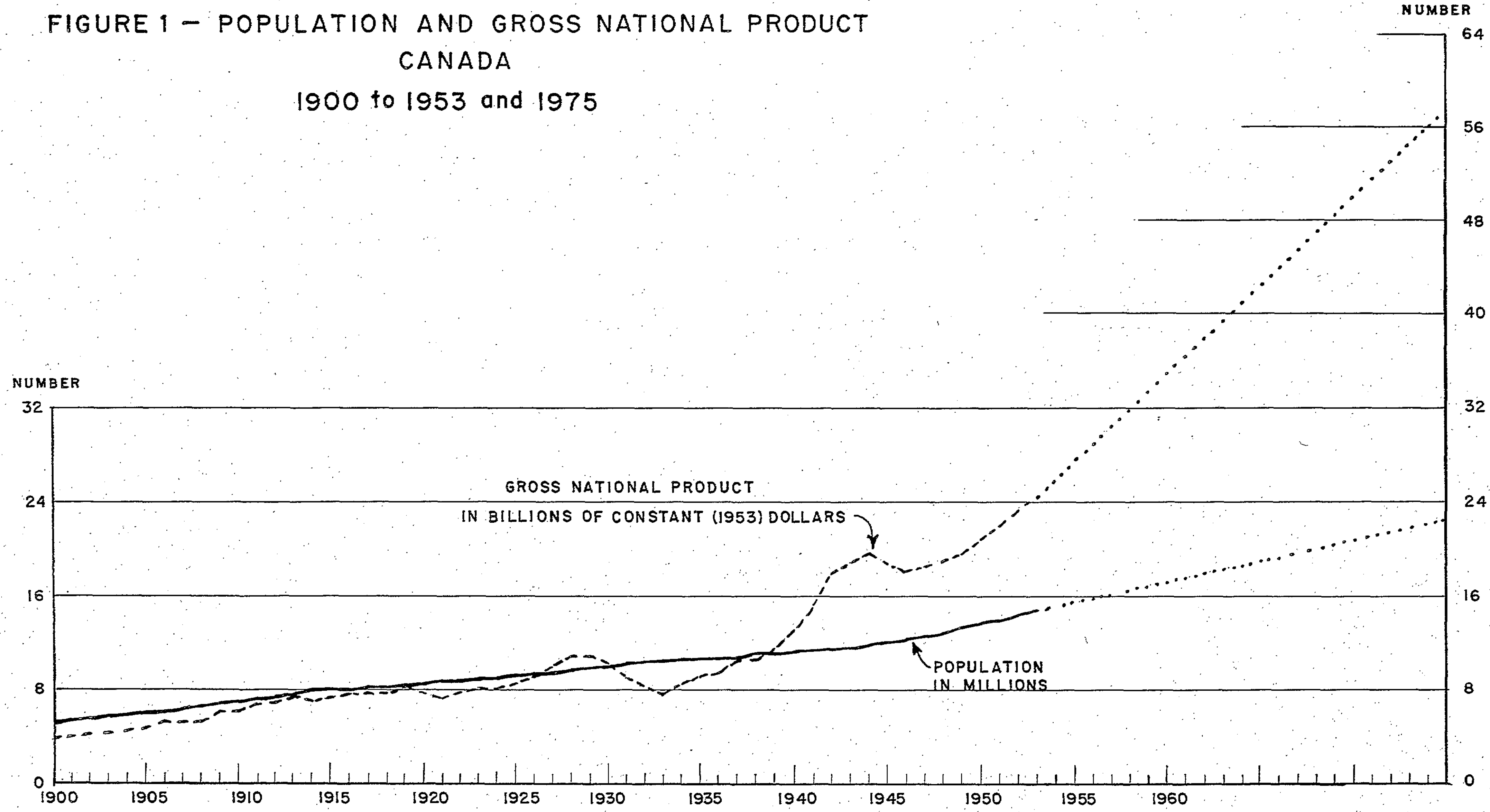
(1) In making the above mentioned estimates of gross national product in 1975, one refinement was used: gross private product, that is, the output of the nation excluding earnings of persons in government service and in the armed forces, was estimated separately from gross public product representing the residual output. This was done to allow for the factor that improvements in productivity occur primarily in the private sector of the economy. There is the further consideration that whatever improvements in productivity are occurring in the public sector, these have so far proven very elusive of measurement. (For further details, see Appendix attached to this chapter.)

FIGURE 1 — POPULATION AND GROSS NATIONAL PRODUCT
CANADA
1900 to 1953 and 1975



the assumption of an intermediate rate of economic growth - based upon a rate of population increase of 1.91 per cent per annum - the rate is 3.99 per cent. During the post-war period the annual increase in gross national product in real terms varied between 1.33 per cent (in 1947) and 6.25 per cent (in 1950), with the annual average from 1945 to 1953 amounting to 3.34 per cent (compound).

The intermediate annual rate of increase of gross national product in real terms from 1953 to 1975 (3.99 per cent) is somewhat greater than either the rates indicated for the period 1900 to 1953 (3.62 per cent) or for the period 1929 to 1953 (3.47 per cent). In fact, between 1929 and 1953, a period of 24 years, gross national product rose by a total of 127 per cent in volume terms, as against an increase of 137 per cent suggested as possible of achievement over the next 22 years.

Why Canadian Gross National Product May Rise More Rapidly in the Next Quarter of a Century than in the Last

The question arises: Is it realistic to assume that the Canadian economy and with it the Canadian market may expand more rapidly in the near to one quarter of a century hence than it has in the quarter century just passed?

Four factors which may be cited in support of this possibility are:

(1) Less Serious Disturbances Expected. The last quarter of a century encompasses the worst depression in Canada's history - shared by most nations - and this serious economic disturbance retarded significantly for a time the long-term expansion of the Canadian economy and market. The last 25 years also include a period of six years of World War II, and this has had the effect on the one hand of a great spurt to industrial expansion and diversification but involved, on the other hand, the devotion of a substantial proportion of the nation's energies to military purposes. The assumptions on which the estimates for the next close to quarter of a century have been based include: avoidance of a serious depression of the type experienced in the 1930's though economic fluctuations are anticipated, no recurrence of a world-wide and all-out military conflict making possible the devotion of a greater proportion of the nation's resources to civilian

pursuits than was the case either during World War II or at the height of the Korean War. Defence spending, though, is expected to involve higher absolute and relative outlays than was customary in Canada before World War II.

(2) More Research and Scientific Work. Industrial research and scientific work, including market research, now play a much greater part in Canadian economic development than they have ever played before. This is likely to lead to a more effective utilization of resources, and it could become an important factor contributing to greater increases in the productivity of the nation.

(3) More Ample Financial Resources. The financial resources of Canada have grown immensely, making this country less dependent on the inflow of foreign capital in its future economic development. Nevertheless, the continuing discovery of high quality resources and the opportunities in an expanding domestic market for new industries has attracted and is likely to attract increasing amounts of foreign capital for participation in Canadian economic expansion. Foreign capital like domestic capital may be attracted, however, at varying rates over the next quarter of a century. Still, few worthwhile and constructive projects are likely to be deferred for any length of time because of the lack of financial support. Thus the means of financing Canadian economic and industrial expansion in the future may turn out to be somewhat more ample than they have been in earlier periods of Canadian development.

(4) Greater Experience and Confidence. Canadian management has grown in stature; the working man has acquired greater skills; the farmer has made significant progress in mechanizing his operations; capital equipment has become available in larger quantities and in a quality which compares well with the best available in the highly industrialized countries; governments have learned more about how to cope with problems of economic adjustment - though some of the lessons learned still await a practical test; and the Canadian citizen generally has acquired a quiet though determined sense of confidence which holds promise for greater economic achievements in the future.

In making these four points of why the Canadian economy and with it the Canadian market may grow more rapidly in the next quarter of a century than in the last, two things should be remembered:

(1) One or several of the assumptions made above may not materialize. This may well have the effect of slowing down materially Canada's long-term economic growth. Such could be the case, for example, if this country experienced a series of crop failures, serious labour strife, a breakdown in international trade, not to speak of another world war.

(2) Canadians may not be able in the year 1975 to make reasonably full use of the country's resources in line with the requirements set out for an economy operating at "high levels." The path the economy takes through 1975 is not likely to be an upward trend without interruption. Historical experience suggests that the road may not be smooth in each and every year, and 1975 could be one in which full utilization of resources is not achieved. This would be the case, for example, if there was a sidewise movement, that is, temporary discontinuance of growth, in total output owing to heavy and unwarranted inventory accumulation in an immediately preceding period, or, to take another example, if there was a downturn in investment expenditure - uncompensated for by increases in the spending of other sectors - as a result of a heavy build-up in business plant and equipment in the first years of the decade of the 'seventies. Crop failures such as were experienced in 1954 could reduce farm income, and this might have the effect of reducing purchasing by the agricultural sector.

Should any of these situations develop, the size of the Canadian market visualized for 1975 and illustrated quantitatively above would be nothing but an indication of a potential market. The actual market may be considerably smaller. People without work for any length of time make poor customers, and sales will of necessity be smaller than if the economy had been operating at between 95 and 98 per cent capacity, assumed in this study.

Pattern of Canadian Market in 1975

Assuming that the gross national product in 1975 may be of the order of $58 billion (in 1953 dollars), what are some of the possible ways in which that gross national product may be distributed among various sectors reflecting the demand for final goods and services? Or to put the question differently: What share of the market may go to the four major buyers of Canada's output: consumers, business, governments and foreign residents?

Table 6 summarizes the division among major components of gross national expenditure (equal to gross national product) as it actually did take place in the years 1929, 1949, 1952 and 1953. Then in Table 7 four different distribution patterns of gross national expenditure for 1975 are shown, described as high consumption pattern, high investment pattern, high government expenditure pattern and an "average" pattern.(1) In considering the estimates it should be remembered that the decade of the 'seventies may see not merely one of these alternative market patterns, but rather a changing distribution of expenditures from year to year showing possibly resemblance to each one of the four.

It will be recalled that 1929 was a year in which economic activity in Canada reached the highest level in the pre-World War II period. Two of the important factors contributing to the buoyancy of the Canadian economy in that year were a particularly high level of domestic investment and of consumption. 1949 was a year in which supply and demand forces were more evenly balanced than at any time in the preceding ten years of war and post-war adjustment. Thus, in that particular year the consumer was getting more value per dollar expended than he had had for a number of years. In 1952 the expanding defence program following the outbreak of the war in Korea was getting into swing. Thus, a greater proportion of the nation's output went to the government sector, with a corresponding reduction of the output going to consumers. With defence spending fairly well stabilized in 1953, it was investment which absorbed a greater proportion of the nation's output, as the resources development program continued at a high

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(1) The above distribution patterns are developed somewhat along the lines of the various models of hypothetical national budgets for the year 1960 shown by Gerhard Colm in his study, The American Economy in 1960, National Planning Association, Washington, December, 1952 (see particularly chapters III and IV).

TABLE 6. - CANADIAN MARKET PATTERNS, SELECTED YEARS, 1929-1953.

Item	1929		1949		1952		1953	
	$ Mill.	Per cent(1)	$ Mill.	Per cent	$ Mill.	Per cent	$ Mill.	Per cent
Personal Consumer Expenditure	4,393	71.2	10,963	66.6	14,403	62.1	15,165	62.3
Gross Domestic Investment	1,391	22.6	3,199	19.4	4,497	19.4	5,281	21.7
Residential Construction	247		742		786		1,061	
Non-Residential Construction	486		903		1,554		1,726	
New Machinery and Equipment	597		1,323		1,916		1,922	
Change in Inventories	61		231		241		572	
Government Expenditure on Goods and Services	682	11.1	2,128	12.9	4,204	18.2	4,408	18.1
Net Foreign Balance	- 313	- 5.1	174	1.1	173	.7	- 440	- 1.8
Residual Error	13	.2	- 2		- 92	- .4	- 64	- .3
Gross National Expenditure	6,166	100.0	16,462	100.0	23,185	100.0	24,345	100.0

Source: National Accounts, Dominion Bureau of Statistics.

(1) In 1953 dollars, the percentage distribution in 1929 is as follows: personal consumer expenditure 66.6, gross domestic investment 26.6, government expenditure on goods and services 11.9, net foreign balance -5.3, and residual error .2.

level and many industrial and commercial projects, which had been deferred in earlier years, went ahead in that year.

As the data in Table 6 show, there may be times when the consumers' role increases at the expense of business and governments. Then there are other times when the two last mentioned groups may be making greater demands on the nation's output. In that case the consumer has to be satisfied with a smaller share of the pie though it may mean a bigger piece, since the pie as a whole may be larger.

As to the share of foreign residents in Canada's national output, this is a special story and it is dealt with separately later on. In the four market patterns shown in Table 7, exports of goods and services and imports of goods and services are assumed to be in balance.

Since the make-up of the Canadian market has varied a great deal in the past, there are good reasons to suppose that it may again vary in the future. The four patterns chosen are illustrations of what the market may be like under different circumstances. The following sections describe the different market patterns and explain the situation in which such patterns could materialize, with more detailed information on methods of making the estimates shown in an appendix at the end of this chapter.

Very briefly, the method employed was to apply past relationships among the major economic sectors to the gross national product estimated for 1975 on the basis of the assumption mentioned earlier, to arrive at the "average" market pattern for that year. Some adjustments were made to past relationships where this appeared to be indicated to allow for such factors as changes in consumer habits and preferences, a possible speed-up in technological developments, and the growing complexity involved in the production of new commodities requiring greater capital per unit of output, and some relative diminution in defence spending in line with the assumption of a lessening in international tension over the long pull. Having established what appeared to be a reasonable "average" market pattern for 1975, several deviations were then worked out to reflect some possible alternative uses of the nation's output in a basically private enterprise economy.

High Consumption Pattern. One way of reaching a high level of economic activity accompanied by buoyant market conditions in Canada would be to anticipate a notable increase in living standards in this country over the next quarter of a century. To achieve a high consumption economy would in fact require a significantly more rapid increase in living standards in the future than has been the case over the last several decades.

In the high consumption pattern shown in Table 7, personal consumer expenditures are assumed to represent about 69 per cent of total gross national expenditure. This would involve a total consumer outlay of about $39 billion in 1975 as compared with $15.1 billion in 1953. To achieve such a high level of consumer spending would require an improvement in the average annual rate of consumer expenditures per capita of 2.50 per cent (compound) from 1953 to 1975. This compares with an assumed rate of increase in the "average" pattern of 2.23 per cent, and of 1.51 and 1.91 per cent respectively in the actual rates over the periods 1929 to 1953 and 1945 to 1953.

The question arises, what are some of the circumstances under which such a rapid rate of improvement in the real standard of living of Canadians might occur. Some factors that might contribute to it would include the creation of a very extensive productive capacity in the country which could only be used if consumers raised their outlays, investment or exports increased substantially, or government spending took up some of the slack, or a combination of these factors. To make it possible for consumers to take up as large a proportion of the gross national product in 1975 as is indicated in the high consumption pattern might require some change in savings habits - saving less and spending more - supported by appropriate fiscal and monetary policies conducive to higher consumer spending, e.g., reduction in sales and excise taxes. New products, favourable price-income relations, and generally more effective marketing techniques would be other factors inducing consumers to spend more on goods and services.

In some respects a high consumption economy in 1975 would reflect the conditions of 1929. As Table 6 shows, consumer expenditures in that year amounted to about 71 per cent and investment expenditure to about 23 per cent of gross national expenditure, while government expenditure amounted to only 11 per cent. Both consumer and investment expenditures were high relative to government outlay.

High Investment Pattern. It is feasible to visualize that a more substantial than usual proportion of the gross national product could be devoted to investment in 1975. In a high investment economy, again typified by 1929, capital expenditures may comprise as much as 23 per cent of the nation's output. If such a ratio were to be reached, this would involve an increase in investment from $5.3 billion in 1953 to about $13 billion in 1975. The bulk of this investment would be made up of construction expenditures both residential and other, and purchases of machinery and equipment. To reach such a level of investment, capital expenditures would have to rise at an annual average rate of 4.27 per cent (compound) between 1953 and 1975. Again, this is a much higher rate than that indicated for an economy with an "average" pattern, involving an annual average rate of increase of 3.37 per cent, or the actual rate indicated for the period 1929 to 1953, 2.33 per cent. It is, however, substantially below the rate of increase indicated for 1945 to 1953, 11.96 per cent.

A high investment economy represents another possible distribution of the nation's output, but there must be good reasons for the devotion of such a high proportion to capital spending. For in a predominantly free enterprise economy large private capital expenditures are made, mainly if there is need for additional capacity and the investment is profitable. In a way, then, a high investment economy in 1975 implies the expectation of business for increased demand for its products from consumers, other businessmen, governments or foreign residents.

Some factors that might contribute to a high investment economy have already been mentioned: an increase in the rate of capital requirements per worker and per unit of output as the production process becomes more complex and in response to changes in the industrial structure. The latter might involve a further shift from low capital-using industries to high capital-using industries.

Growing world demand for Canadian basic raw materials may lead to another spurt to resources development in the 1970's similar to the experience of the early 1950's. The large number of young people expected to reach marriageable age in the second half of the 1960's and in the first half of the 1970's is likely to be an important factor in contributing to a housing and urban development boom at that time. Should the international situation worsen even though it may not lead to all-out war, substantial expansion in industrial capacity serving military preparedness may again become necessary.

While it does not appear likely that these various factors will all materialize at one time, the existence of one or several of these factors would tend to encourage Canadians to make larger capital expenditures in relation to their national output than in other years.

The ratio of investment to gross national product visualized for a high investment economy in 1975 would not be very much different from Canada's experience in both 1929 and 1953 (see Table 6).

<u>High Government Expenditure Pattern</u>. The main reason for justifying the assumption of a high government expenditure pattern reconcilable with the preservation of a predominantly private enterprise economy in Canada would be an increase in cold war pressures, possibly accompanied by military conflicts in particular areas but not war on a world-wide scale. In such an international situation Canada, together with the other free nations, might step up her defence efforts beyond what had been necessary, and this would lead to increased government outlay.

If in a high government expenditure economy total public spending reached 22 per cent of gross national product, as indicated in Table 7, this might have the effect of reducing both the level of consumer spending as well as investment outlay. There is, however, the other consideration that a rapidly growing defence program could also necessitate the creation of additional capacity. The latter in turn might lead to an increase in capital spending, and a rising proportion of investment to gross national product, as was the experience of Canada in the first few years following the outbreak of the war in Korea.

If a greater defence effort were required in Canada in 1975 than is the case in the post-Korean period, the proportion indicated above is in line with the assumption of an intensification of the cold war. Still, it would remain substantially below the proportion that would be required in case of an all-out military conflict. In 1943, for example, 38 per cent of gross national expenditure represented government outlay, of which 32 per cent was for military expenditures. In 1952 and 1953, government expenditures comprised about 18 per cent of gross national expenditure, of which between 7 and 8 per cent were for national defence.

A high government expenditure economy is the only pattern, of the four discussed in this section, which presupposes an increase in aggregate taxation levels above those in existence in 1953. On the other hand, some reduction in taxation levels is reconcilable with a high level of economic activity reached via a high consumption market pattern, a high investment market pattern, or an "average" market pattern. The assumption, of course, is that in any event government economic policies would be formulated in such a way as to create a favourable economic climate, conducive to encouraging consumers to increase their expenditures and stimulating business to intensify its efforts to develop Canada's natural resources, and to build up secondary industries and commercial facilities. It should also be remembered that in a growing economy government receipts may be increasing even though there may be some reduction in the rate of taxation. Such increases in government receipts may in turn make it possible for governments to accede to the country's growing demand for public services of a civilian type.

<u>"Average" Pattern.</u> What pattern any market analyst wants to assume for 1975 will depend on the purpose of making the projections as well as on the relative importance he may attach to the various economic forces that appear to be shaping Canada's future economy.

If one wanted to allow for the fact that none or only few of the more extreme assumptions may materialize, then one could visualize a make-up of the Canadian market of the kind illustrated in Table 7 and Figure 2 under the heading "average" pattern. In this pattern consumer expenditures comprise about 65 per cent of gross national expenditure, less than they did in such years as 1929 and 1949 but more than they did in 1952 and 1953. On the basis of this ratio, consumer spending may reach $37 billion in 1975

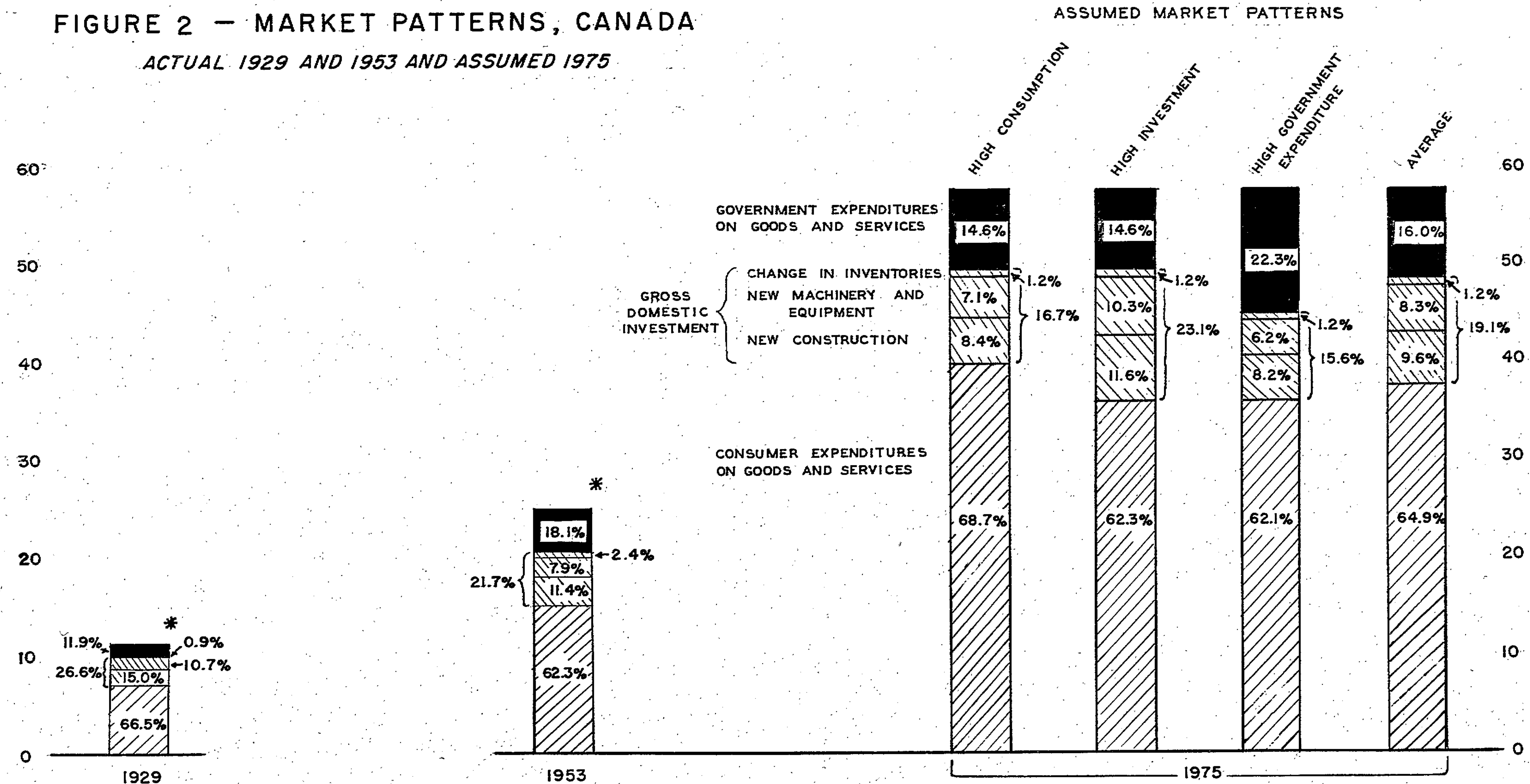
TABLE 7. - FOUR PATTERNS OF THE CANADIAN MARKET IN 1975

(Estimates in Billions of 1953 Dollars)

Item	(a) High Consumption		(b) High Investment		(c) High Government		(d) "Average" Pattern	
	Amount	Per cent Distribution	Amount	Per cent Distribution	Amount	Per cent Distribution	Amount	Per cent Distribution
Personal Consumer Expenditure	39.5	68.7	35.8	62.3	35.7	62.1	37.3	64.9
Gross Domestic Investment	9.6	16.7	13.3	23.1	9.0	15.6	11.0	19.1
Residential Construction	1.8		2.2		1.8		1.8	
Non-Residential Construction	3.0		4.5		2.9		3.7	
Machinery and Equipment	4.1		5.9		3.6		4.8	
Change in Inventories	.7		.7		.7		.7	
Government Expenditure on Goods and Services	8.4	14.6	8.4	14.6	12.8	22.3	9.2	16.0
Net Foreign Balance	-	-	-	-	-	-	-	-
Gross National Expenditure	57.5	100.0	57.5	100.0	57.5	100.0	57.5	100.0

FIGURE 2 — MARKET PATTERNS, CANADA

ACTUAL 1929 AND 1953 AND ASSUMED 1975



* THESE THREE COMPONENTS ADD UP TO MORE THAN 100 PER CENT BECAUSE THE NET FOREIGN BALANCE WAS NEGATIVE

(in 1953 prices) as compared with $15.1 billion in 1953. It would still involve a more rapid rate of increase in consumer expenditures per capita (2.23 per cent, compound) than in the 1929-1953 period (1.51 per cent) and in the 1945-1953 period (1.91 per cent). Such a rate of increase, as has been suggested, is feasible of realization given a continued rise in real incomes, little change in savings habits, and a growing desire to improve living standards.

Canadian Economy - by Sectors

Changing Consumer Market. It is not possible in the narrow compass of this chapter to deal in any detail with the changes in composition of the consumer market. However, it appears from observation of past trends that certain types of consumer expenditures are growing much more rapidly than other types. Table 9, for example, shows that out of eight major types of expenditures by consumers, two rose more rapidly in real terms than consumer outlay as a whole, while the remaining six rose less rapidly. Transportation expenditures, mainly because of the growing importance attached to owning and operating motor cars, grew most rapidly between 1929 and 1953. Expenditures on tobacco and alcoholic beverages showed the second most important growth. Expenditures on personal, medical and dental care, including death expenses, more than doubled over this period. There are also important differences in the rate of growth of consumer spending within the major groups. For example, meat consumption rose more rapidly than outlay on other foods. Expenditures on household appliances reflecting the desire of lessening manual labour in the home, rose more rapidly than expenditures on furniture and on other household operations. As suggested earlier, the trend towards further mechanization of the household and the desire for greater provision of services and economic security are likely to continue. Even though expenditures on some consumer items such as food, clothing and shelter may not rise as rapidly as expenditures on other consumer goods and services, even a somewhat slower rate of growth may represent substantially larger markets for these items in Canada than has been the case in the past. The important point to remember is that in a growing economy and in an expanding market the demand increases for virtually all types of commodities except those that become obsolete. Generally, the tendency of the composition of the Canadian market to change, observed over the last half century, is likely to continue. The indications are that over the long run Canadians will increase their spending for durable goods (motor cars, household appliances, etc.) and for services (medical, dental, personal care, etc.) somewhat more rapidly than for some of the basic necessities of life (food, clothing, etc.).

Capital Investment. In this average market pattern, investment outlay may comprise 19 per cent of gross national expenditure. This would involve an increase in gross domestic investment from $5.3 billion in 1953 to $11 billion in 1975. Such a level of capital spending may be sufficient to provide the physical facilities and industrial capacity required by a gradually expanding economy. But no allowance is made for special circumstances which may lead to a sudden and considerable spurt in capital spending Factors which might lead to such a situation have been mentioned above in discussing the "high investment" economy.

A 19 per cent ratio of investment to gross national expenditure reflects the kind of situation Canadians experienced in 1949 and 1952. The ratio, however, is below the proportion reached in either 1929 or 1953. In other words, what is assumed in an average situation is not an investment boom but a steady expansion of physical facilities to meet the growing needs of the nation for more plants, stores, houses, schools, hospitals and roads.

The annual average compound rate of increase of investment between 1953 and 1975 assumed in this "average" pattern would be somewhat below the increase anticipated for consumer expenditures, 3.76 per cent as compared with 4.18 per cent. In fact, if anything a more rapidly rising consumer market may at some time in the future provide added incentives for business to embark on another spurt in capital spending. If such a spurt were to take place, Canada might at a subsequent period reach a situation resembling what has been described above as a high investment economy.

Within the investment sector some types of capital expenditures may increase more rapidly than others. For example, as Table 8 illustrates, outlay on machinery and equipment may rise more rapidly than outlay on

TABLE 8. - CHANGE IN COMPONENTS OF GROSS NATIONAL EXPENDITURE, 1953 AND 1975, "AVERAGE PATTERN"

Item	1953 Billions	1975 Billions	Per cent Change
Personal Consumer Expenditure	15.1	37.3	147
Gross Domestic Investment	5.3	11.0	108
Residential Construction	1.1	1.8	68
Other Construction	1.7	3.7	118
Machinery and Equipment	1.9	4.8	153
Inventories	-.6(1)	.7(1)	-
Government Expenditure on Goods and Services	4.4	9.2	109
Net Foreign Balance	-.5	-	
Gross National Expenditure	24.3	57.5	138

(1) The two figures are not quite comparable because farm inventory change has been assumed to be zero in 1975, while in 1953 it amounted to $196 million (see Appendix to this chapter).

TABLE 9. - DISTRIBUTION OF PERSONAL CONSUMER EXPENDITURES, CANADA, 1929 AND 1953

Item	1929 $ Millions(1)	Per cent	1953 $ Millions(1)	Per cent	Per cent Increase in Real Terms
Food	1,117	25.4	3,775	24.9	98
Meat	223		983		158
Tobacco and Alcoholic Beverages	290	6.6	1,334	8.8	170
Clothing and Personal Furnishings	597	13.6	1,843	12.1	102
Shelter	720	16.4	1,891	12.5	107
Household Operation	575	13.1	1,885	12.4	87
Appliances and Radios	89		395		141
Home Furnishings and Furniture	121		472		77
Transportation	391	8.9	1,885	12.4	225
Motor Cars, New and Used	84		817		281
Personal, Medical Care and Death Expense	286	6.5	935	6.2	123
Miscellaneous	417	9.5	1,637	10.7	110
Total	4,393	100.0	15,165	100.0	126

Source: "National Accounts", Dominion Bureau of Statistics, and "Prices and Price Indexes", Dominion Bureau of Statistics.

(1) In current dollars.

construction. This would be in line with the assumption that the growing complexity of the economy will require more equipment for production. Also, with rapid technological developments, the arrival of the jet and atomic age, very large equipment requirements for transportation, communication, and power generation can be anticipated.

With respect to investment in inventories, the assumption is a sufficient accumulation to allow for the proper functioning of an economy operating at a high level. There is therefore no allowance made in this assumption for inventory liquidation necessitated by a heavy inventory build-up in previous years, or for attempts by business and consumers to expand inventories beyond their current requirements. The net change in farm inventories in 1975 is taken as zero. Additions to stocks of business inventories in 1975 were assumed to bear the same relationship to the total book value holdings of business inventories as in 1953, that is, approximately 5 per cent. (For some of the reasons for estimating inventory investment in this manner, see Appendix at the end of this chapter.)

Government Expenditures. Government spending in an "average" market pattern in 1975 is put at $9 billion, or 16 per cent of gross national expenditure. This ratio is above those indicated for 1929 and 1949 but below those for 1952 and 1953. Some easing in international tension has been mentioned as one of the basic assumptions. If such a situation were to materialize, this would warrant some reduction in the proportion of the gross national expenditure going to government and used by the latter for military purposes. The assumption is that some higher level of defence spending may be required than was the case in either the pre-war period or in the immediate post-World War II period, with some reductions from the proportion of the country's resources devoted at the peak of the defence efforts necessitated by the war in Korea. Some increase in non-defence expenditures by governments is anticipated in a growing economy with an average pattern. Such increased government expenditures for civilian purposes would make it feasible to undertake a number of projects which the nation seems to want and which various levels of government in Canada appear willing to undertake: from greater emphasis on natural resources conservation programs to the expansion of communication and transportation facilities, from the provision of increased educational, health and community facilities to the extension of research work and experimental projects. The level of government spending indicated above would make an increase in such programs feasible.

Foreign Trade. In the four market patterns described above, the net foreign balance has been put at zero. This means that exports of goods and services are assumed to equal imports of goods and services.

This assumption is in line with the Canadian Government's current trade policies, which include as one of their basic premises: that expanding levels of exports over the long run can only be achieved if Canada is prepared to accept an increasing volume of imports.(1)

The assumption is not very far from the kind of situation which Canadians experienced in the post-war period as a whole. It is true that in some years Canadians exported more than they imported, but in other years the reverse was the case. Thus, Canadians had a large favourable balance on the international exchange of goods and services in 1945, involving $687 million, and a large unfavourable balance in 1951 involving $524 million Total exports of goods and services during the period 1945 to 1953 inclusive amounted to $38.8 billion. Total imports of goods and services during the same period amounted to $38.3 billion. This leaves a moderate excess of exports of goods and services over imports of some $500 million, or 0.6 per cent of the total.

Whether exports will exceed imports or vice versa, or whether Canada's trade will be fairly well in balance depends on the kind of market pattern one assumes for 1975. If, for example, the pattern were that of a high investment economy, a significant increase in the purchase of capital

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(1) "Our broad policy in Canada is to pursue measures that will strengthen our position as a major trading nation, both as a buyer and as a seller - and to do so with the maximum emphasis on positive, expansive methods and the minimum reliance upon the restrictive. We must continue to bend every effort toward keeping the door wide open to the return to multilateral trading practices throughout the world." ("Canada's Trade Policy" by the Right Hon. C.D. Howe, Minister of Trade and Commerce, Public Affairs, Halifax, Spring 1950, p. 12.)

goods abroad might lead to imports being greater than exports. On the other hand, if a high government expenditure economy materializes as a result of a worsening of international relations, Canadian exports may be greater than imports. For in such periods Canadian shipments of basic materials required by other countries in their rearmament efforts customarily increase fairly rapidly.

It is quite likely that, even if the Canadian economy in 1975 experiences a well-balanced level of activity reflected in an "average" market pattern, exports may exceed imports by a moderate margin, or vice versa. If Canadians have a small export surplus in 1975, this would have the effect of reducing somewhat the relative importance of one or several of the other three sectors, consumer, business and governments. But if imports exceed exports, then the share of one or the other of the three domestic buyers of Canada's output may be a little greater than is indicated.

The occurrence of a heavy current account deficit cannot be ruled out for 1975. In such an event the pattern of Canadian national expenditures is likely to deviate from what has been described as an "average" pattern. Imports are more likely to exceed exports by a substantial margin in a "high investment" or "high consumption" economy, rather than in a "high government expenditure" economy, particularly if the latter is largely associated with military preparedness, or in an "average" economy.

It is particularly difficult to say what the level of exports might be in Canada in 1975, even assuming that the Canadian economy may be operating at a high level. One thing is reasonably certain: exports would have to be at high levels, too, for Canada is heavily dependent for her prosperity on being able to exchange her large surpluses available for export against many commodities and services she requires. But the question is: What is a high level of exports required to support a high level of domestic economic activity?

If the 1953 ratio of the exports of goods and services to gross national expenditure is applied to the $58 billion figure suggested above as a possible gross national expenditure for 1975, then exports of goods could be of the order of $9.9 billion and of services of $3.0 billion, or a total of $12.9 billion (in 1953 prices). The comparable figures for 1953 are $4.1 billion, $1.3 billion and $5.4 billion.

The point has been made earlier, however, that Canada's domestic market has been growing more rapidly than her foreign markets. A continuation of this trend has been made one of the assumptions in preparing the estimates of gross national product for 1975. If that assumption holds, then the ratio of exports of goods and services to gross national expenditure for 1975 could be somewhat lower, and still, the Canadian economy could be conceived as operating at what has previously been defined as a high level. In other words, exports of goods and services could be somewhat below $12.9 billion, and still represent a sufficiently high level to enable Canadians to enjoy prosperous conditions. There will, of course, be changes in the composition of exports in accord with shifts in consumer tastes abroad, with ever-widening applications of technology and with changes in competitive conditions. This will mean that in some fields, as may be the case with certain agricultural products, the level of exports may be substantially below those currently recorded.

It is important, however, to remember that the very nature and the specialized character of many of Canada's natural resources make it necessary for this country to continue to aim at as high a level of foreign trade as is feasible and practical in a competitive trading world. Levels of trade can be balanced at both high and low levels. There is little doubt if such a balance were to be achieved at low levels Canadians would find it very difficult to obtain the high level of domestic economic activity and rising standards of living, visualized in this study as feasible of achievement in a sane world. The implication is not only a lessening of world political and military tension but of more favourable attitudes of trading nations towards international commerce, including their readiness to facilitate both greater <u>exports</u> as well as <u>imports</u>.

<u>Canadian Market in Perspective</u>

<u>Caution Indicated in Preparing and Using Long-Term Market Projections.</u> The limitations of long-term economic projections have been emphasized at the beginning of the chapter. The main point made was that

such projections are nothing but quantitative illustrations of what might happen given the realization of varying assumptions. Long-term projections are therefore not indications of what actually will happen. And if the assumptions chosen are not well founded, the likelihood that the projections may materialize even within a reasonable margin of error may be slim indeed.

Three other things which counsel caution in both the preparation and use of long-term projections are:

(1) Even some minor variations in basic assumptions may yield major differences in the aggregate, if these aggregates are projected over a long period of time. For example, if it was assumed that the growth in output per man year were at the rate of $2\frac{1}{2}$ per cent instead of 2 per cent, or one-quarter higher than the rate actually used, then the projected gross national expenditure for 1975 would have been $64 billion rather than $58 billion, an increase of 10 per cent. It is therefore of prime importance before either embarking on the preparation or undertaking to use long-term economic projections to have a clear understanding of the economic forces that are expected to operate in the Canadian economy a number of years ahead, and to be fully aware of the assumptions either made or implied in the estimates.

(2) There is the further point that even where rates of economic growth assumed yield certain market or economic aggregates these totals can be made up in many different ways, with different implications for markets for specific commodities and services. It bears emphasis that the distribution pattern of a possible Canadian market in 1975, discussed in the preceding sections, are purely hypothetical. Their main purpose is to illustrate to both producers and users of long-term economic projections the usefulness of considering alternative patterns which the Canadian market may assume under changing circumstances.

(3) The assumption that things might develop in the future as they did in the past is tempting, though it may not necessarily yield the best results. It is therefore necessary to consider many qualitative factors which influence the market pattern of tomorrow and which are not obvious solely from past behaviour, e.g., technological innovations, changes in government economic policies, variations in international political and

commercial relations. The arbitrary selection and application of growth rates by an economist or market analyst is no substitute for good business judgment.

Implications for Business. Looking at the Canadian market in perspective, what are some of the lessons that can be learned from past experience, bearing in mind the particular problems faced by Canadian businessmen?

Lessons from Past Experience. First, the Canadian market is a growing market. To underestimate the growth potential of that market is likely to lead to some inadequacies of capacity and of personnel in handling increased business as it develops. Continuing long-range planning by Canadian business can help firms to keep pace with the growth of their country and keep them from losing ground to their competitors.

Secondly, to anticipate a market decline solely because it has been expanding for a long time might mean an unnecessary loss of business that perhaps could have been avoided by greater efforts to increase efficiency of production and distribution and to expand sales. The important point to remember is that the Canadian record of the first half of this century suggests that over a long period the odds of having a good year against having a poor year are about four to one. There is therefore a need for Canadian businessmen, particularly the large organizations that are in a position to do so, to review continuously market conditions and prospects in a factual way and to appraise the economic forces at work as an aid in formulating business decisions.

Thirdly, even within a growing market, some industries and some areas will be doing better than others, some products will sell more easily than others. There is therefore a need for Canadian industry to keep fully abreast of technological developments in production and in marketing, and to take careful cognizance of any changes in the pattern of demand that is taking place. This might assist Canadian businessmen materially in supplying Canadian consumers with the kind of goods they want at the lowest possible price.

Fourthly, in a private enterprise economy such as exists in Canada, temporary interruptions in the upward trend of the market appear to be unavoidable. In most cases, as past experience indicates, such interruptions are of short duration. There is always the possibility that at times some business organizations may become so preoccupied with what a possible decline may do to their balance sheet that the long-term interests of these companies do not receive the attention they deserve. This problem of how to reconcile short-term necessities with long-term interests is a continuing one, requiring careful executive attention.

Looking ahead to 1975, the Canadian market is likely to more than double in size. This might involve a situation where (1) the consumer may be a little more important than he has been in the immediate post-World War II period or during the Korean war years, (b) business capital expenditures and government outlay, a little less important, and (3) the domestic market might be growing at a somewhat more rapid rate than Canada's foreign markets.

<u>Possible Uses of Market Projections</u>. Long-range business planning has been an integral part of the operations of many large and successful companies. There is, of course, some variation from company to company in the degree to which such planning is used by management. Most companies that expect to be successful in business, may want to give consideration to the long run factors in the economy in order to appraise properly their own position within the industry and the national economy. Some of the possible uses of market projections by Canadian business include:

(1) An appraisal of the size of the possible growth of the market may make possible more solidly based estimates of the future demand for the products of the firm. Long-run projections of product demand, in their turn, provide a basis upon which expansion and location of capital facilities can be planned and future commitments in personnel formed.

(2) Markets for particular products are inter-related with the growth of the economy, its major industries and regions, and changes in Canada's foreign trade relations. To make realistic market projections for individual commodities requires an examination of the entire Canadian market and its major industries, as well as consideration of the potential market of alternative products. Only by relating the estimated potential

growth of a firm's business to that of the industry and the economy as a whole can a company establish whether it is likely to keep pace with its competitors, do better or fall behind.

(3) Size of the market, capacity and personnel to supply the market, and the general economic climate are all factors influencing income-cost-profit relations for a company. To maintain economic incentive, these relationships have to prove satisfactory to both management and labour. Projections of the growth of the market and the assessment of market conditions help in sizing up what future income-cost-profit relations may be like.

(4) Management requires some knowledge of the trend in population growth, of the distribution of population, e.g., by age groups or by areas, of its income and of its productivity. This is necessary in order to anticipate the kinds of goods to be produced, the methods of marketing and the areas where they might be distributed. Appraising the growth of the market and how it will affect buyers' decisions has a direct effect on profits because, among other things, it will affect inventory policy and sales promotional activities.

Conclusion

In conclusion, the economic forces which appear to be operating in the Canadian market suggest that the market may grow at an even more rapid rate in the next quarter century than it did in the last. As that market expands, the age composition of the population and its geographic distribution will change; consumer wants will shift in response to higher living standards and to technological innovations. Thus, Canada's market of tomorrow will be dynamic not only with respect to size but also with respect to its make-up. Therein is the challenge to those who cater to that market, the Canadian producer and distributor, and the importer. The greatest rewards await the businessman who seizes the manifold and varying opportunities that an expanding economy offers.

APPENDIX TO CHAPTER 2

Explanatory Notes to Economic Projections for 1975

These notes provide supplementary information on the methods employed in making the economic projections for 1975 and offer some explanations for the estimates presented in Table 7.

Gross National Product

Estimates were prepared separately for the gross private product and the gross public product. Gross private product consists of private purchases by individuals, business firms and institutions, and government purchases from business. The gross public product covers the earnings of persons in the government service and in the armed forces, together with interest payments on that part of the public debt representing productive assets. The main reason for making separate estimates for the gross private product and gross public product is that possibilities exist for making reasonably meaningful estimates in improvements in output per man-year in the private sector. There is no direct information available on productivity changes in the government sector nor is there any historical evidence which would justify the assumption that productivity in the public sector has risen at the same or a similar rate as in the private sector. Hence it was thought preferable to make estimates separately for the private sector using historical experience as the basis for making the necessary assumptions. In the public sector, the situation appears to be that productivity changes take place at a slower rate than in the private sector. One possible explanation might be the difference in the way the government product is purchased, through the payment of taxes, as distinct from the private sector, where the product is purchased through expenditures for specific products and services in the market place.

Gross Private Product. To arrive at an estimate of gross private product for 1975, the following basic data are required: (a) persons employed in producing the gross private product, 1953 and 1975, (b) gross private product per man-year in the base year 1953, and (c) the rate of improvement in output per man-year in producing gross private product.

Using an intermediate annual rate of population growth, referred to in the text, of 1.91 per cent (compound) suggests a population increase from 14,781,000 in 1953 to 22,395,000 in 1975. Of this population it is estimated that 38.5 per cent would be in the labour force and that 96.5 per cent would be employed. Hence the total labour force for 1975 is estimated at 8,622 million, and the total number of employed at 8,320 million. It is further assumed that the ratio of persons employed to produce the gross private product to the total number employed, amounting to 90.8 per cent in 1953, would be applicable to 1975. In other words, the assumption is for no relative increase in the number of persons directly employed by governments. Such a situation may be achieved even though there may be some relative decline in direct defence expenditures and some increase in the civilian services provided by governments.

Gross private product in 1953 was arrived at by subtracting from gross national product government expenditures on goods and services and adding to it government purchases from business. Total gross private product for 1953 amounted to $22.7 billion. Persons employed in business were estimated by deducting from the total number of persons employed those in the armed forces and directly employed by governments, reflecting the average situation in 1953. Gross private product per person employed in 1953 amounted to $4,707.

The annual rate of improvement in output per man-year using gross private product was taken to be 2 per cent (compound), reflecting, as indicated earlier, an intermediate rate of long-term change. On this basis, gross private product per man-year in 1975 is estimated at $7,277 thousand (in 1953 dollars). Multiplying this output per man-year by the total number of persons employed in producing gross private product yields a total gross private product for 1975 of $54.7 billion.

Gross Public Product. To arrive at an estimate of gross public product for 1975, the following estimates are required: (a) persons employed in producing the gross public product 1953 and 1975, (b) gross public product (excluding interest payments) per man-year in the base year 1953, and (c) the interest on that portion of the public debt representing productive assets.

In 1953, persons employed directly by federal, provincial and municipal governments averaged 382,000 and persons in the armed services numbered 104,000, a total of 486,000. This number represents 8.9 per cent of the labour force. Applying the same proportion to the total labour force of 8,622 million in 1975 yielded persons employed in producing gross public product (excluding interest payments) numbering 767,000.

Gross public product amounted to $1.6 billion in 1953, representing the payments of wages and salaries to government employees, military pay and allowances. Dividing this figure by the number of persons directly employed by governments yielded a gross public product (excluding interest payments) per man-year of $3,230 for 1953. Total gross public product (excluding interest payments) in 1975 therefore would equal $2.5 billion.

The interest portion of the public debt representing productive assets amounted to $130 million in 1953, or one-half of one per cent of gross national product. It was assumed that interest payments of this type would rise at the same rate as the Canadian economy as a whole. In the last quarter of a century, public capital expenditures have been rising less rapidly than capital expenditures in the private sector. As a result, a substantial backlog of public projects has accumulated over that period. It is likely that many of these projects will be undertaken in the next several decades, suggesting a somewhat more rapid rise in capital expenditures for public facilities than has been the case in the more recent period. On the basis of this assumption interest payments on the public debt, representing productive assets, may amount to $300 million in 1975. Adding this figure to the estimated wages and salaries and military pay of government employees yields a total gross public product of $2.8 billion for 1975.

Gross National Product. Gross national product for 1975 is the sum of gross private product of $54.7 billion and gross public product of $2.8 billion, totalling $57.5 billion. Estimates can now be made of the components of gross national product on the basis of an "average" pattern. This is done by estimating independently gross domestic investment and government expenditures on goods and services. With net foreign balance assumed to be zero (for reasons see text) personal consumer expenditures are arrived at by subtracting from gross national expenditure (equal to gross national product), gross domestic investment and government expenditures on goods and services. The estimate of consumer expenditures arrived at by this residual method can then be checked against past experience and possible changes in living standards which Canadians may experience in the next few decades.

Gross Domestic Investment

Residential Construction. The 1975 estimates for expenditures on residential construction are based upon the relationship between families and occupied dwellings. The rate of change in number of persons per family between 1929 and 1953 was used as a basis for estimating number of persons per family in 1975. Similarly, the rate of growth in the number of occupied dwellings (1951 Census definition) for the same 1929-1953 period was used as a base for estimating the number of occupied dwellings in 1975. To estimate the actual number of completions in 1975 the rate of change in the ratio of completions between 1929 and 1953 was assumed to be applicable in the years through 1975.

These calculations resulted in an estimated number of housing completions amounting to some 160,000 units in 1975. In making estimates, however, recognition was given to the carry forward to 1975 of some portion of the housing backlog and it was assumed that some residential construction would represent the whittling down of this figure which has been estimated at from 75,000 to 200,000 units.(1) To that figure of 160,000 was added 10,000 units toward satisfying the backlog of housing demand. Estimated expenditure upon housing was obtained by applying average 1953 expenditure of $10,550 per completed unit to the 160,000 units contemplated for 1975, thus yielding total residential construction expenditures of approximately $1.8 billion which are employed in all alternate market patterns except the "high investment". In the latter, expenditure is estimated at $2.2 billion for 1975 in anticipation first of a more rapid rate of growth than formerly in the relation between families and occupied dwellings, and second of the building of a larger number of dwellings to reduce the housing backlog than has been allowed for in the other three patterns.

Non-Residential Construction and Machinery and Equipment. The bulk of expenditures on non-residential construction and machinery and equipment represents investment in plant and equipment undertaken by Canadian business corporations and individuals. It was assumed that, as the Canadian market would grow, so would the need to expand at a somewhat similar rate the business capital facilities of the country. As a working guide the rate of growth in potential output and that in the stock of plant and equipment were held to be equal. This sort of approach requires the following conditions to be true: (a) a constant capital efficiency, i.e., no change in the amount of capital required to produce one unit of output; (b) a constant rate of growth in capital stock; (c) constant rate of replacement investment relative to the size of capital stock.

In estimating 1975 expenditures for plant and equipment, two means were employed. In one the relation between the growth in capacity (gross private product between high employment years) and the total volume of plant and equipment expenditures within the same period was considered. As a guide to the results thereby obtained the past relationship between gross private product and investment in plant and equipment was considered.

Two periods between high employment years were chosen, one being 1926-1953 and the other 1929-1953. During both periods approximately $3.10 was spent upon investment for every $1 increase in capacity. From 1926 to 1953 investment amounted to $21,400 million compared to a growth in capacity of $6,936 million (1935-39 dollars). During 1929-1953 investment expenditure was $19,274 million compared with an increase of $6,215 million in capacity.

Past experience of the annual average relationship between investment in plant and equipment and gross private product was determined. This average has varied with the period of coverage. For example, taking the years 1929 to 1953 it has amounted to 10.9 per cent, while for 1926 to 1953 the figure is 11.4 per cent. In taking a period covering so many years the disadvantage is that the relationship has been subject to both cyclical and trend variations and so the exact significance of the average figure may not be at all clear. However, the use of high points and low points in such a series seems no more preferable than the use of the average.

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(1) House of Commons, First Session - Twenty-second Parliament 1954, Standing Committee on Banking and Commerce, Minutes of Proceedings and Evidence, No. 3, Bill 102, p. 72.

In addition to considering such purely statistical measures based upon past experience, factors such as the rate of technological change, the rate of utilization of capital equipment, the stage of development of the Canadian economy, and the fact that a somewhat faster rate of growth in output to 1975 has been contemplated than was experienced in the previous quarter century. Thus, on the basis of both quantitative and qualitative factors, a 15.5 per cent ratio of investment in plant and equipment to gross private product was used in deriving estimates for the "average" market pattern. This ratio of plant and equipment expenditure to gross private product appears to be sustainable over the long run.

In the alternate models other levels of plant and equipment investment were chosen in accord with the differing composition of final product consistent with the types of economy therein implied. In the "high consumption" pattern a 13 per cent relationship is suggested; in the "high investment" pattern the relation is 19 per cent; in the "high government" pattern a 12 per cent relation is advanced. It is interesting to note the growth in investment outlay necessary to produce a $1 increase in capacity that is the counterpart of each one of these patterns. In the case of the "average" market it amounts to $3.92, in the "high investment" pattern to $4.82, in the "high government" to $3.03, and in the "high consumption" to $3.29.

For the 1975 market patterns plant and equipment expenditures have been broken down into two categories - machinery and equipment and non-residential construction. The basis for this was to divide the estimate for total plant and equipment expenditure in rough accordance with the experience of both 1929 and 1953. In 1929 and in 1953, 56.7 and 57.1 per cent respectively of the total were spent for machinery and equipment. In dividing this category of investment in 1975 it was decided to allocate 57 per cent of the total to machinery and equipment and 43 per cent to construction.

Change in Inventories. Investment in inventories in 1953 amounted to: business inventories, $376 million; farm inventories, $196 million; total, $572 million. There were two main reasons for the substantial increase in inventories in Canada in 1953; in the business sector, a good deal of the accumulation was involuntary as a number of industries experienced a decline in sales. Hence, even before the year was out, there was a certain amount of inventory liquidation taking place, but this process was fairly slow. A significant rise in inventory holdings by business firms resulted. In the agricultural sector, Canadian farmers had harvested a record crop, and export sales of such staples as wheat were slow, with a consequent significant rise in agricultural inventories.

Looking to 1975, the basic assumption was made that inventories would grow as the Canadian economy expanded and Canadian business would operate on a much larger scale. In line with the assumption that the economy would be fairly well balanced in 1975, no allowance was made for excessive inventory build-up or inventory liquidation.

The 1975 estimate of inventory change in the business sector rests on the following assumptions:

(1) that over the period 1953-1975 the total book value of business inventories will grow at the same rate as the gross private product;

(2) that the total book value of inventories at the end of 1953 was in satisfactory relationship to the gross private product.

At the end of 1953 the total value of business inventories stood at approximately $7.5 billion. Applying the projected annual rate of increase in gross private product of 4 per cent to business inventories, they would amount to $17.1 billion at the end of 1974 and $17.8 billion one year later. Thus, the increase in business inventories during 1975 may be of the order of $700 million. This compares with a change in business inventories of $376 million in 1953.

With respect to farm inventories, their change was assumed to be zero in 1975. This assumption was based on past experience which indicates that given "average" crop conditions and a reasonably high level of exports, changes in aggregate farm inventories are negligible. It is true that, if there is a bumper crop in Canada and if the export markets, particularly for staples, are sluggish, a substantial farm inventory build-up might develop. It was considered preferable to assume an average crop for 1975 and reasonably good export markets for Canada's staple agricultural products, rather than either a record crop and/or a substantial decline in export markets for agricultural products.

Government Expenditures on Goods and Services

These represent the sum of government purchases from business and the gross public product.

To arrive at estimates for government purchases from the business sector past rates of growth in per capita government purchases from business were considered. For example, in the periods 1929-1949 and 1929-1953 the rate of growth in volume terms was 2.48 and 4.49 per cent respectively. In deriving the "average" market pattern it was felt that the latter rate was too high in that it reflected the build-up in defence expenditures after the outbreak of the war in Korea in mid-1950. The magnitude of these is apparent in the fact that the 1929-1953 rate is considerably above that for 1929-1949. In view of the large hump in these expenditures as the defence effort was magnified, and the fact that government purchases are at a higher level now than would have been the case had the 1929-1949 trend been continued, a rate of increase of 2 per cent on the 1953 base in government purchases from business was projected through 1975 for the "average" market pattern. On this basis government purchases in 1975 may be expected to reach $6.4 billion.

Adding government purchases from the business sector to gross public product representing the wages and salaries paid to persons directly by federal, provincial and municipal governments and persons in the armed forces and interest payment for productive assets amounting to $2.8 billion yields total government expenditures on goods and services of $9.2 billion for 1975.

In the "high investment" and "high consumption" patterns a somewhat lower rate of growth in per capita government purchases from business is anticipated, it being 1.5 rather than 2 per cent per annum. Aggregate government purchases from business in this instance would amount to $5.6 billion and total government expenditure would reach $8.4 billion.

For the "high government" expenditure pattern there is the assumption of an increase in international tension necessitating defence expenditures of a somewhat higher magnitude. The growth in government purchases from business in this model is estimated at 4 per cent per year which, when combined with the gross public product, gives a total expenditure of $12.8 billion.

Personal Consumer Expenditures

Subtracting from gross national expenditure of $57.5 billion, gross domestic investment of $11.0 billion and government expenditures on goods and services of $9.2 billion yielded personal consumer expenditures of $37.3 billion for the "average" market pattern in 1975. This works out to personal consumer expenditures per capita of $1,665 (in 1953 dollars) for 1975 as compared with $1,026 for 1953. The two figures imply an annual rate of improvement in the standard of living of the average Canadian of 2.23 per cent per annum (compound).

This rate of increase in personal consumer expenditures per capita in real terms compares with a rate of increase between 1929 and 1953 of 1.51 per cent per annum and for the period 1945 to 1953 of 1.91 per cent (compound). Among the reasons supporting the assumption of a somewhat more rapid rise in living standards of Canadians than has been the case in the last quarter of a century are: (a) the assumption of the avoidance of a major depression such as was experienced in the 1930's and the avoidance of another world war. The depression brought about a substantial reduction of personal income per capita which, in turn, had an unfavourable effect on the level of consumer spending. During World War II, personal income was rising fairly rapidly, but the necessity to devote resources to the prosecution of the military conflict made it impossible for consumers to devote the same proportion of their income to purchases of goods and services. To a lesser extent, this was also true in the years immediately following the outbreak of the war in Korea. (b) The natural desire to improve the standard of living is likely to be fortified by the increasing capacity of the Canadian economy to turn out a growing volume of consumer goods and services.

The projection of the average market pattern suggests that, unless there is a somewhat more rapid rate of growth in consumer expenditures on a per capita basis than has been Canadian experience over the last quarter of a century, the high level of national output suggested for 1975 may not be achieved. It is possible, of course, that a sizeable portion of this growing output could be marketed abroad. If this were the case it is likely that Canada would become a net exporter of capital with a positive balance on current account. This is an alternative which has not been given explicit recognition in the four market patterns presented in Table 7. As stated earlier, the assumption is that Canada will be neither a net exporter nor a net importer of capital. But within the assumptions of the four market patterns and given the continuation of the traditional relationships between the public and private sectors of the economy, the added goods and services made possible by the higher rate of output will have to be marketed to private individuals if relatively full utilization of both human and capital resources is to be attained.

In the high consumer market pattern, per capita personal expenditure on consumer goods and services was assumed to rise at an annual average rate of 2.50 per cent per annum (compound), while in the high investment and high government expenditure market patterns a somewhat lower rate of increase was assumed, about 2 per cent. This lower rate of increase is more in line with the historical experience over the last quarter of a century, mentioned above.

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Title/*Titre* Growth and future of the Canadian market, 1900 to 1975. Ottawa, 1956.

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0133-34.3 (10/70) 7530-21-029-4581