

other than commodity trade, is that of tourist expenditures (see p. 475), which are luxury expenditures and likely to be drastically reduced in time of depression. On the payments side, the most important item is that of interest and dividend payments—a major portion of which is a fixed amount, and a large portion of which is due from Canadian Governments. In a period of falling prices, the real burden increases and if, in addition, there is a drop in the exchange value of the Canadian dollar, the real burden of the large portion payable in foreign currencies increases even more. Substantial investments were made abroad by Canadians during the 1920's, and on many of these investments heavy losses were suffered (both capital and income) while Canada continued to meet the major portion of the debt payments due abroad. Since 1930 favourable balances abroad have been used largely to retire Canadian debt rather than to make new investments and there has been an important reduction in the amount of outstanding debt payable in foreign currencies.

To summarize, Canada's position in both her trade and other financial relations with the outside world is largely that of her position in relation to the United States and the United Kingdom. (See Subsections 3 and 4 following.) As has been seen, Canada's trade with these two countries is all-important to her while their trade with Canada is of minor importance to them. Because of her possession of a few special resources, Canada should enjoy a particularly high export income and national income so long as any substantial measures of international division of labour and trade are permitted. But the provision of productive capacity to exploit these resources has involved heavy fixed charges, and Canada is forced to import on a large scale commodities in which she is deficient with the result that, while fixed costs are high and income is normally high, the income is likely to fluctuate much more sharply than the costs. Because of the character of Canadian resources and the nature of Canadian trade and other financial relations with the United Kingdom and the United States, fluctuations in gross income and, consequently, even more in net income reach relatively huge proportions at either extreme of the business cycle.

Subsection 2.—Trade by Continents and Leading Countries

Trade by Continents.—The increase in Canada's imports in 1939 was not supplied in equal measure by all continents. Imports from North America increased substantially while Europe and South America contributed smaller amounts than in 1938. The net result of the changes was to increase even more the predominance of North America as a source of supply for Canada. In the period of recovery since the depression, the percentage of imports from the United States has tended to rise while that from "Other Europe" has fallen to a much lower figure than formerly. Compared with pre-depression years, much larger proportions of imports are now coming from Asia, Oceania and Africa because of increased direct imports of industrial raw materials from these continents; total purchases from these three continents combined, however, amounted to less than 9 p.c. of total imports in 1939.

North America was also first in purchases from Canada. Europe (including the United Kingdom) has generally led in purchases of Canadian products but in 1938 and 1939 was exceeded by North America. The restrictive measures regarding trade adopted by many European countries together with the state of war existing