

classes of products. Thus, Canada may, at any time, find the prices of most of her exports declining more rapidly, or rising more slowly, than the prices of what she buys, or the reverse situation may result. In times of depression Canada finds the impact of the depression intensified by the fall in the real purchasing power of the bulk of her commodities (in the past decade, gold has been an important exception), while the United Kingdom and the United States can look forward to some important increases in the real value of their exports.

32 In all other external transactions, Canada is also vitally affected by the policy of the United Kingdom and, even more, by that of the United States. United Kingdom and United States investments in Canada; Canadian investments in the United Kingdom and the United States; the integration of a large portion of Canadian industries with those of the United States; the huge seasonal tourist exchange, periodic migrations of labour and the continuous exchange of individuals; and the existence of international labour, business, and professional organizations, all give rise to a continual ebb and flow of funds on a very large scale and a continual process of adjustment of prices, costs and profits. The total of these 'invisible' items in the balance of payments with the United States are almost as important as total transactions on merchandise account and, in some ways, may have an even more direct effect on comparative price levels and thus eventually on purchasing power parities. Canada, in the past, has followed virtually the full swing of violent fluctuations in the United States, modified only slightly by the greater stability of the United Kingdom. A vital difference in the effect of the notoriously abrupt and extremely fluctuating North American business cycle on Canada and on the United States is the substantially higher net income of the latter. Thus, Canada is compelled to accept the full measure of fluctuation that accompanies the highest standard of living in the world—without as high a standard of living to absorb it.

Besides tending to transmit to Canada the full extent of economic fluctuations in the United States, the invisible items of foreign trade give rise to some special features that intensify the pressure on the economy in times of depression. The most important item on the income side of the balance of payments transactions, other than commodity trade, is that of tourist expenditures (see pp. 909-911), 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.

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. 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