cannot afford the gigantic waste that attends the unplanned development of the national resources.

Because of the close relation of the political process to the national economy, government has become more responsible than ever for a knowledge of the social and economic problems of its people. Accordingly, the role of the research expert has become a vital one in the political process. Specifically, the executive must have access to the findings of the research expert and planning technician in order to provide intelligent guidance of many aspects of national policy. The research and advisory role of planning is therefore indispensable to the executive.

Post-War Prospects for Canadian Newsprint

By J. A. Guthrie

The tremendous growth in newsprint production which Canada has experienced during the last three decades has been one of the most sensational developments of the economic life of the Dominion. The manufacture of newsprint paper has increased rapidly and steadily since the beginning of the present century until it now occupies a position of the first magnitude among the manufacturing industries of the Dominion. In 1939, the pulp and paper industry, which is dominated by newsprint, ranked first in net value of production manufactured, capital invested, and salaries and wages paid.

Even more sensational has been the rise in importance of newsprint as an export commodity. At the beginning of the twentieth century no exports of this paper were recorded in the Canadian trade figures. By 1910 exports to the value of $2,600,000 had made their appearance. Newsprint, however, was still relatively unimportant in the trade of the country, ranking nineteenth in value of commodities shipped abroad. Exports of wheat in that year amounted to $52,600,000 and of planks and boards to $33,100,000. A tremendous expansion in the production and shipment of newsprint occurred during the World War, and by 1920 value of newsprint exported from Canada had risen to $53,600,000. Wheat, however, still maintained a substantial lead, the exports of that commodity amounting to $185,000,000 in 1920. Newsprint continued to gain in importance relatively to wheat and other commodities until in 1939, the value of newsprint exported from Canada exceeded that of any other commodity and amounted to $115,600,000. Thus, in a period of three decades newsprint has risen in importance from nineteenth to first place among Canadian exports.

Numerous factors have contributed to this remarkable development. The consumption of newsprint in the United States increased enormously during and after the first World War. The intense interest of the public in war news was reflected in rapidly increased circulations and sizes of newspapers. Furthermore, businessmen became keenly aware of the importance of newspaper advertising in stimulating consumer purchasing. Between 1915 and 1929 expenditure on newspaper advertising in the United States increased more than threefold. Technological developments in printing also contributed to increased consumption of paper by lowering the cost and increasing the attractiveness of newspapers. Sport, society, and comic pages were expanded into sections, and many special

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features were added. Per capita consumption of newsprint in the United States rose from 25 pounds in 1910 to 62 pounds in 1929.

This tremendous increase in the demand for newsprint paper taxed to the limit the productive capacity of American forests and mills. Consequently, when the politically powerful press of the United States succeeded in 1913 in having newsprint put unconditionally on the free import list, most American newsprint companies found it desirable to build mills in Canada.

There were numerous advantages in doing this. Most important of these were a plentiful supply of cheap wood, ready access to low-cost power, and cheap means of transportation. The spruce and balsam forests of Quebec, Ontario, and the Maritimes provided an abundant supply of cheap and relatively accessible pulpwood. The numerous rivers and streams which drained these forests were a source of cheap power and also provided an easy method of transporting logs from forest to mill. Proximity of the Canadian pulpwood stands to the large cities of the United States also gave Canadian newsprint producers the advantage of low transportation costs between mill and market.

The expanding needs of the American newsprint market were reflected in relatively high prices during most of the period of the twenties. A marked scarcity of newsprint during 1919 sent the price skyrocketing in that year. The contract price rose to $130 a ton, and the spot price went much higher. Prices continued relatively high during most of that decade, but gradually fell as more and more mills were built, and old mills were increased in size. By 1929 the New York price of newsprint had fallen to $65; considered at that time a lamentably low figure. But the downward sweep in price had still some distance to go. The optimism of the twenties had resulted in the construction of much additional capacity, and new mills continued to come into operation even after 1930. The depression, which started in 1929, caught the newsprint industry in a vulnerable position. Strenuous attempts were made to prevent further price drops, first by the industry and later by the provincial governments of Ontario and Quebec. The price of newsprint continued downwards, however, until it reached a figure of $40, where it remained from April 1, 1933, until the end of 1935. As a result of these conditions a large number of the Canadian companies were forced into receivership and virtually none of them made any profits for several years. The improvement in business conditions in 1937 and a price rise of $7.50 a ton the following year provided some much-needed relief to the industry, but rising labor and other costs have done much to offset the more favorable conditions in the industry since 1937. With the advent of World War II and the elimination of competition from the Scandinavian countries, conditions in the industry have improved somewhat. But costs have continued to rise and price-freezing by the O. P. A. has prevented, as yet, an anticipated $3.00 increase in the price of newsprint. Manufacturers are, therefore, still forced to sell their product at $50 a ton, and have received no increase in price since 1938, despite a sharp increase in the costs of labor, materials, and transportation. Furthermore, with the entry of the United States into the war, the demand for newsprint for advertising purposes appears to have fallen off. The danger to ocean shipping and lack of shipping space have also curtailed overseas shipments. Hence, the immediate prospects for the Canadian industry are not particularly promising.

The long-run prospects for newsprint in the post-war period, however, are of much greater importance to the Canadian economy. To attempt to make any estimate of the future development of the industry is both difficult and dangerous. But certain of the factors determining future trends can be seen, in part at least. Per-capita consumption in the United States, the principal market for Canadian paper, cannot be expected to increase much. It has averaged about 55 pounds over the last fifteen years, and in the future will probably not exceed this figure by very much, for the radio has become a more and more serious competitor of the newspaper as an advertising medium. Expenditure on radio advertising has increased greatly since 1929, whereas expenditure on newspaper advertising has declined since that year. According to a recent estimate, the population of the United States will increase about seven per cent between 1940 and 1960. Newsprint consumption in the United States, therefore, may be expected to increase by about the same percentage. Future consumption in overseas markets—Europe, South America, Australia, and the Orient—is more difficult to foresee. When trade conditions return more nearly to normal in the post-war period, Canadian exports of paper can reasonably be expected to be about the same or somewhat larger than they were in the ten-year period preceding World War II. In any case, overseas shipments have not been a large percentage of total Canadian exports. Between 1930 and 1939 they averaged only 16 per cent of total Canadian production. During that same period, exports to the United States amounted to 77 per cent of the Canadian production. The American market, therefore, is by far the most important outlet for Canadian newsprint.

Will Canadian newsprint manufacturers be able to hold their share of the American market? What of the competition from mills in the Southern States, in Alaska, and in the Scandinavian countries? Newsprint is now being made on a commercial scale in Texas from southern yellow pine, and the industry is likely to expand in the southern states. Canadian newsprint producers, however, will probably have a competitive advantage over those located in that area if Southern manufacturers should attempt to sell their paper in the large cities north of the Mason and Dixon Line.[1] Southern producers will doubtless supply most of the needs of Southern newspaper publishers, but this additional American production may be offset by a reduction in production in high-cost areas of the United States.

1. Guthrie, John A. *The Newsprint Paper Industry.* Harvard University Press. Cambridge, Massachusetts. Chapter XIV.

Alaska also is a potential source of newsprint. Paper manufactured there could compete in eastern American markets with the Canadian output. The distance it would have to be transported, however, would put Alaskan manufacturers at a serious disadvantage. The timber stands of Alaska will likely remain as a reserve supply until such time as the Pacific Coast or Oriental markets require additional newsprint.

The Scandinavian countries will also probably re-enter the American newsprint market when international trade is again restored. Scandinavian newsprint, however, has never competed seriously with Canadian paper in the American market. Prior to 1940, the European imports of newsprint into the United States were rarely more than one-tenth of the Canadian imports. For a few years immediately preceding the present war Finland was the largest European seller of newsprint in the United States.

Another factor which will naturally affect the future of the Canadian newsprint industry is the supply of Canadian pulpwood. There is, at present, insufficient information available on the rates of growth and depletion of Canadian timber stands to allow an accurate appraisal of the extent and possible duration of the pulpwood resources of the Dominion. From the best available information, however, it would appear that the pulpwood supply suitable for making newsprint is not being seriously depleted. The supply of pulpwood controlled by, or accessible to, most of the large newsprint companies is also sufficient to meet their present requirements in perpetuity.[1] Thus, provided no great expansion occurs in present newsprint producing capacity Canadian firms will, in general, have sufficient pulpwood to supply their requirements. This situation, of course, differs considerably by regions.

1. Guthrie. *Op. cit.* p. 26-29.

The post-war outlook for the Canadian newsprint industry, therefore, is relatively favorable, considered both from the standpoint of future market possibilities and future sources of pulpwood supply.

What is the outlook for the industry in the Maritime Provinces? The production of lumber and wood pulp has been important there for many years, but the manufacture of newsprint paper is of comparatively recent origin. One relatively small mill commenced producing newsprint in Nova Scotia about 1923, but until 1929 its output averaged only about 20,000 tons per year. By 1930, however, two other large mills had come into production, and in 1931, the output of the three mills in New Brunswick and Nova Scotia amounted to about 225,000 tons—roughly 10 per cent of the total Canadian supply. Since then the Maritime production has averaged about 250,000 tons annually, and in one year almost equalled 300,000 tons.

The competitive position of the Maritime mills compares favorably, in general, with that of other newsprint mills in eastern Canada. Wood costs are, on the average, at least as low as those in Ontario and Quebec, and power and other costs do not differ appreciably from the averages in the other two provinces. An advantage which the Maritime mills enjoy is their location on tidewater. All three mills are situated on navigable deep water, and therefore, can be reached by ocean vessels, and one of the three is the only Canadian newsprint mill east of the Rockies which can utilize year-round water transportation. This advantage of location results in a considerable saving to the mills, for the cost of transporting newsprint from mill to market is relatively large.

On the whole, therefore, the Maritime mills appear to occupy a favorable position in the Canadian industry. The most serious difficulty they may encounter in the future is a shortage of pulpwood. At present, however, they seem to have a sufficient supply for a long time to come provided that, in the post-war era, there is no great expansion in newsprint production such as that which followed the last World War.

The Canadian Excess Profits Tax

EDITOR'S NOTE: The tax on excess profits is one of the most widely discussed measures of Canadian war finance. On account of its complicated nature it is often misinterpreted and still oftener misunderstood. PUBLIC AFFAIRS has therefore asked two well known experts to discuss in its columns some important aspects of the tax, namely its administration and its effects on Canadian companies.

THE EFFECT OF THE TAX ON 80 CANADIAN CORPORATIONS

By LUCY MORGAN[1]

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WITH every month Canada's war economy gathers momentum. Trade totals soar to new heights, production figures climb steadily, business indicators rise. With the same dizzy speed the costs of war mount daily, an ever increasing percentage of the national output is diverted to war, and with each succeeding budget the government's tax needs dig deeper into the Canadian pocket.

The net result of war stimulation and war taxation on Canadian business has provoked speculation and controversy. Has the increased activity due to the war meant higher profits? Does available evidence bear out the extremist contention that huge profits are being made out of the war, or the equally extremist but opposite contention that business is being choked by the Excess Profits Tax? An analysis of the 1939 and 1940 annual statements of a group of eighty corporations both large and small, representing widely diverse aspects of Canadian business, suggests at least a tentative answer to these questions

1. See Editor's Note on p. 20.