

CHAPTER THREE: THE INTERWAR YEARS

The interwar years began with cynicism and trepidation. Yet for a time in the 1920's there was limited hope for peace. The Great Depression dashed whatever hope people had mustered—for ten long years they put their dreams on hold. As if economic despair was not enough to quash the human spirit, Hitler and the fascists endeavored to bring triumph through evil. The Second World War ended the era with levels of horror not even the First World War could match.

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I. THE SEARCH FOR SECURITY

A. THE LEAGUE OF NATIONS AND INTERNATIONAL SECURITY

President Woodrow Wilson of the United States persuaded the delegates at the **Paris Peace Conferences** to adopt the notion of collective security in order to create a new world order. Wilson meant to achieve collective security by creating a community of nations which would guarantee one another's safety. According to Wilson, collective security meant that an attack by an aggressor on one country, would be viewed as an attack on all countries.

To achieve the goal of collective security, the last of Wilson's fourteen points stated that "a general association of nations must be formed under specific covenants for the purpose of affording mutual guarantees of political independence and territorial integrity to great and small states alike." The idea of some form of international organization was certainly not a new one. Nevertheless, it was President Wilson who first made the idea of the League of Nations - that is, an association of nations widely popular, and it was Wilson who insisted on the inclusion of the Covenant of the **League of Nations** in all the peace treaties. It is for these reasons that Wilson is rightly regarded as the founder of the League of Nations.

1. THE FORMATION AND STRUCTURE OF THE LEAGUE OF NATIONS

The main objective of the League of Nations was to preserve the peace of the world. This was to be achieved by the following:

a) **International Cooperation**

Members committed themselves to promoting international cooperation through the medium of an international association.

b) **Arbitration**

Members of the League promised not to go to war until they first had submitted their disputes to arbitration. **Arbitration** is a process whereby quarrelling parties submit their dispute to a third party for a ruling.

c) **Collective Security**

Members of the League of Nations solemnly bound themselves to help any member that was the victim of aggression. This was called **collective security**. It was hoped that aggression would be halted and war prevented, not by force of arms but by economic weapons (called sanctions). If sanctions were imposed, League members would be obligated to break off all trade relations with the aggressor state and thus force the offender, through lack of supplies, either to stop fighting or to give up its conquest.

2. ASSESSMENT OF THE LEAGUE

Although the idea of a League of Nations was good in theory, in reality, it didn't work. There are a number of reasons for the failure of the League of Nations, but two stand out as the most important. First, the membership of the League never represented the whole community of nations. Originally Germany and the Soviet Union were not members, but more importantly, in spite of Wilson's promotion of the idea, the United States refused to sign the Treaty of Versailles, and thereby also refused membership in the League. Additionally, the League had no adequate means to enforce its will on offenders.

Although the League was ultimately a failure, it did have some impact upon international relations during the interwar years. Probably the biggest asset of

the League was a general feeling of (at least temporary) optimism, which led people to believe that all wars could be prevented. The present-day United Nations operates under no such idealistic illusions.

II. CANADA IN THE INTERWAR YEARS

A. CANADA IN THE TWENTIES

I. AFTERMATH OF THE WAR

The First World War was over—there should have been cause for celebration! Certainly there were many reasons to be glad that four years of horror were now left behind. On the other hand, Canadian soldiers still faced many difficulties:

- a) There was growing discontent among soldiers left in Europe after the war was over. Shipping was inadequate, and many soldiers waited years to return to their homes overseas.
- b) After returning from the war, soldiers wanted more money than was given to them in the form of pensions and other payments. Soldiers felt that they should be compensated for all of the pain and suffering that they had endured.
- c) Soldiers had difficulty adjusting to “normal” life after returning from the horrors of war. What may have seemed important before leaving for war, suddenly lost all meaning. It is tough to imagine returning to a life of working in the factories after having fought just to stay alive.
- d) At the end of the war, former Canadian Prime Minister Wilfred Laurier was also disillusioned. On the eve of his death, Laurier recognized the damage that had been caused by the war— in Canada, Quebec’s opposition to conscription tore the country in two, causing resentments that would affect a generation. Laurier was right to assume that French-English relations in Canada would be forever changed by decisions made during wartime.

2. SOCIAL CHANGES

Despite a difficult adjustment period for Canadian soldiers who fought in the First World War, there were many positive changes that occurred in Canada in general during the twenties. After the war was over, Canada’s economy was booming, women had gained the right to vote, and there was a general feeling of optimism that the horrors of war were now left behind.

a) Types of Activities

In the 1920s, Canadians participated in many new types of activities, some of which have remained popular to this day. In the summertime, Canadians went to picnics, corn roasts and clam bakes. They also “rode the rapids” and went to the horse races. In the winter, Canadians went to the “movie palace,” and participated in winter sports such as skating and skiing.

b) Art

The most famous group of artists from twentieth century Canada is the **Group of Seven**. These seven painters rejected realism, and used bold strokes, heavy paint, and contrast in their paintings. In 1920, they held their first exhibition, and their work gradually gained popularity. These artists were also unique in that they only painted the Canadian landscape— particularly the North. Tom Thompson was the major force

behind the creation of the Group of Seven and became its most famous artist.

Emily Carr also emerged during the 1920s and 1930s, and she is now recognized as one of Canada's greatest artists. She sketched and painted scenes of the forests around Victoria, British Columbia, and also studied the local aboriginal culture. Carr later became a successful author, and won the Governor General's award for her first novel entitled *Klee Wyck* meaning the "laughing one."

c) Inventions

During the 1920s, the popularity of three miraculous inventions forever changed the lives of Canadians—the radio, the airplane and the car. We have seen how the airplane was used in the First World War. The airplane during the 1920's (and 1930's) soon was applied to travel and carrying much more than weapons. In Canada, the radio was also used for information and entertainment purposes. For instance, the famous hockey radio broadcaster, **Foster Hewitt**, emerged in the 1920s. "He shoots! He scores!" soon became familiar to all hockey fans. The car also had a big impact on life in Canada. The popularity of the car created jobs, allowed Canadians to get around faster, and enabled Canadians to drive from one end of the country to the other. The car also was a major factor in the development of what we know today as the suburbs. People could now live much further from their place of employment.

d) Immigration

Before the First World War, Canada had experienced an unprecedented boom in immigration; these new Canadians had, for the most part, settled the Prairies and benefited from the construction of the Canadian Pacific Railway in the 1880's. However, in 1919, the Immigration Act was amended and Canada was closed to people coming from enemy countries—the focus was now geared towards British and American immigrants. However, Canada was now losing people faster than they were coming in. Between 1915 and 1925, an estimated 400,000 more people left Canada than came to stay. Canadian farmers urged the government to introduce a less restrictive immigration policy. In response, the Mackenzie King government lowered barriers to European immigration, and the Canadian Pacific Railway spent even more money than the government in trying to attract immigrants from the United States and Europe. Since the majority of European immigrants from this period came by boat, most of them entered through the port of Halifax, which was called **Pier 21**. During the 1920s, groups of up to 1,000 people would arrive at one time, and they were processed in groups of 250 people. Also, as many as 10 immigration officers were needed at a time to examine incoming passengers. By 1927, the top five immigrant groups arriving in Canada were from England, Poland, the United States, Scotland and Ireland.

3. THE GROWTH OF CANADIAN INDEPENDENCE

a) The Paris Peace Conferences and the Treaty of Versailles, 1919

As mentioned previously, Canada obtained its own seat in the League of Nations, separate from Britain. This was one of the first steps taken

towards Canada's independence as a nation. Canada also an independently signed the Treaty of Versailles.

b) The Chanak Crisis, 1922

In 1922, the British sent troops to Turkey because they feared that Turkey might occupy the British controlled port of **Chanak**, which would give Turkey control of a waterway leading from the Black Sea to the Mediterranean. From there, Turkey would have easy access to Europe through the Balkans. Prime Minister King made it clear to Britain that Canada would not automatically send troops in support. King stated that only the Canadian Parliament would decide whether or not to send troops if Britain went to war. This was the first time that Canada refused unconditional support for British imperial war policies.

c) The Halibut Treaty 1923

In 1923 Canada and the United States signed a treaty for the protection of halibut on the coast of British Columbia and Alaska. This treaty never came into effect because the American Senate did not approve it. However, the process of how this treaty was negotiated and signed was another step toward Canadian autonomy in foreign affairs. Against the protests of the British this treaty was signed only by a Canadian and his American counterpart. In the past a British official (usually the British ambassador in Washington) had always signed treaties such as this. When the British protested Prime Minister King threatened to establish a fully independent Canadian ambassador in Washington. The process of negotiating this treaty is typical of how Canada gained its independence in foreign affairs one step at a time.

d) The Imperial Conference, 1926

At the **Imperial Conference in 1926**, it was made known that Canada was in no way subordinate to Great Britain. The **Balfour Report** acknowledged that the dominions were autonomous (independent) communities within the British Empire, and that the Canadian Governor General was only a representative of the British monarch. It was said after this conference that "a colony had become a nation."

e) The Statute of Westminster, 1931

The **Statute of Westminster** recognized in law the report that had made Canada an autonomous dominion of Great Britain at the Imperial Conference in 1926. It specified that the dominions were free to make their own laws. On December 11th 1931, Canada became a sovereign state as part of the **British Commonwealth of Nations**. The Commonwealth was established as an association of free and equal states, and membership was based on a common allegiance to the British Crown. Commonwealth countries were former colonies of Britain.

4. THE BIRTH OF TRADE UNIONS IN CANADA

- a) In 1917, a group of communists in Russia (called the *Bolsheviks*) overthrew the government in a violent revolution. The *Bolsheviks* encouraged workers around the world to join in this revolution. They believed that everyone in a community, including the workers, should own and control the production and distribution of goods—not just the factory owners. After returning from the First World War, some Canadian soldiers were

sent back overseas to Siberia to help fight against the communists in the Russian Civil War. Canadians feared the spread of communism, and did not want the *Bolsheviks* to win the war in Russia. In particular, when Canadian workers joined together to form trade unions, many people believed that this might be the beginning of a communist revolution (refer to page 4). This fear of communism was called the **Red Scare**. Canadian officials began looking for communist literature at the borders, and if anyone was found in possession of such materials, they were sent to prison.

b) Although communism did not spread to Canada, the idea of workers joining together to demand improved working conditions did. In 1919, workers in Canada had no employment insurance, compensation for injuries on the job, or pensions. Canadian workers joined together to form **trade unions** in order to gain improved housing, job training programs, and higher pay. The cost of living in Canada had risen drastically after the First World War. This meant that everything was more expensive, yet at the same time, people were not making any more money to pay for what they needed.

c) **Winnipeg General Strike, 1919**

(i) Even though Canadian workers were joining trade unions, labour law in Canada did not compel employers to bargain with employee representatives. Today, this process is called **collective bargaining**. Therefore, in order for workers to make their demands heard, they organized themselves into unions (which required each member of the union to abide by union decisions) and then organized strikes (they would refuse to work until the employer agreed to make changes). Going on strike was called “walking off the job.”

(ii) Workers believed that by standing together they could force employers to pay higher wages and establish shorter working hours. In Winnipeg, the Building and Metal Trades Councils voted to go on strike. They were asking for: decent wages (85 cents per hour), an eight-hour workday, and the right to bargain collectively (as a group) for better working conditions.

(iii) In 1919, 30,000 workers walked off the job in Winnipeg, followed by sympathy strikes in Vancouver, Toronto, and Montreal. In Winnipeg, the strike spread from industry to industry and quickly became a general strike, causing all services to shut down. Stores and factories closed, and there was no public transportation, garbage collection, postal services, telephone operators, or fire-fighters. Many people feared that this might be the beginning of a communist revolution.

(iv) In response, Winnipeg officials banned all parades and demonstrations. The Canadian government made changes to the Criminal Code—any person who was born outside of Canada and who was suspected of trying to cause a revolution could be arrested and deported without a hearing or trial. The Canadian government in Ottawa also sent troops with machine guns to Winnipeg. The Royal North-West Mounted Police raided the homes of union leaders and arrested 10 strike leaders.

(v) On June 21st 1919, violence erupted in Winnipeg. A huge crowd gathered to watch a parade protesting against the arrest of the strike leaders. The crowd overturned a streetcar and set it on fire. The Mounted Police

charged the crowd—one man was killed, 30 were injured, and hundreds were arrested. This day became known as **Bloody Saturday**.

(vi) Soon afterwards, the Central Strike Committee ordered the workers back to their jobs and the strike was over.

(vii) As a result of the strike, many families never recovered from their financial losses, and in fact, some strikers found that they no longer had jobs to go back to. However, the strike was successful in drawing attention to the social and economic problems that many people faced. Also, after the **Winnipeg General Strike**, labour leaders became more involved in politics, and pro-worker political parties became increasingly popular (such as the **Cooperative Commonwealth Federation** or CCF, which in 1961, became the New Democratic Party or NDP).

5. THE KING-BYNG CRISIS, 1926

In the federal election of 1925, Prime Minister William Lyon Mackenzie King and the Liberal Party won fewer seats than the Conservative Party. However, because King had the support of the Progressive Party, he refused to resign. His decision was based on the British and Canadian concept of responsible government. Basically, a prime minister and cabinet may stay in power as long as they have the majority of votes in the House of Commons. In this case, King had a majority the Progressive Party had agreed to support his government. However, by 1926, King felt that he was losing the support of the Progressives, and therefore, that he might face defeat in Parliament. Before this could take place, Prime Minister King asked Governor General Lord Byng to dissolve parliament so there could be a new election. However, Lord Byng believed that King should have resigned when the Conservatives won more seats than the Liberals; therefore, he refused the request to call an election. As a result, King resigned, and Governor General Byng invited the Conservative Party to form the government.

However, Prime Minister Arthur Meighen of the Conservative Party soon lost a vote in the House of Commons, and as a result, another election was called. Mackenzie King was re-elected as Prime Minister. This event was significant in Canadian history because it marked the first time that a Governor General had outright refused the request of a Prime Minister to dissolve Parliament.

6. ROLE OF WOMEN

a) Social Roles

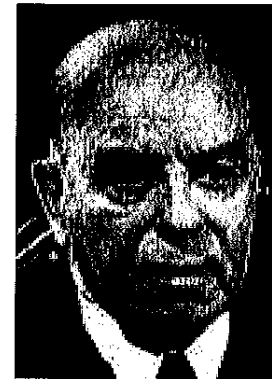
By the 1920s, the role of women in society had changed dramatically. Women increasingly controlled their own lives. They held jobs that had previously belonged to men, and were involved in sports that were previously associated only with men, such as boxing. There were fewer clothing restrictions—for instance, women wore “shocking” bathing suits and shorter skirts. Also new types of activities became popular such as the “scandalous” Charleston dance.

b) The Women’s Christian Temperance Union (WCTU) and Prohibition

(i) In the United States, the **Women’s Christian Temperance Union** (WCTU) used their new found influence to convince the government to ban all production, sale and consumption of alcohol (the ban was called **Prohibition**). Women in both the United States and Canada



P.M. Arthur Meighen



P.M. William Lyon
Mackenzie King

believed that alcohol was evil, according to them, because it led to: wife abuse, child abuse, accidents, poverty, neglect of family, diseases, wife desertion, and even death. In Canada, alcohol was prohibited for three years in Quebec, four years in British Columbia, and even up to 48 years in Prince Edward Island. Indeed, many of the problems caused by alcohol abuse did abate with prohibition. For instance, there was a dramatic drop in crime and poverty rates.

(ii) However, one of the unfortunate results of this movement in the United States was the rise of the gangsterism (organized crime) of Al Capone and others, who illegally supplied alcohol to a thirsty America. "Speakeasies" were secret places which sold the forbidden alcohol. Canadians were also involved in supplying "bootleg" alcohol to the United States. People in the Prairie Provinces would produce "moonshine" and deliver it to American **rum-runners** (smugglers) waiting at the borders. Additionally, fishing schooners in the Maritime Provinces were quickly adapted to the needs of transporting the illegal alcohol. Many of Atlantic Canada's best fishing captains and crews delivered to the rum-runners, and some of them even lost their lives in the process. The main place to pick up the "cargo" was a group of French-owned islands just off the coast of Newfoundland. Most of this liquor was produced in Montreal and Toronto. As an aside, the expression the "Real McCoy" comes from this historical period. Bill McCoy was an American boat builder who enjoyed the thrills and the money involved in rum running. He never watered down his liquor and thus his shipments were called the "Real McCoy."

(iii) In Canada, it was not hard to find a bottle of whiskey. There were also significant loopholes in the prohibition laws. In some provinces such as Ontario, it was still legal to drink wine—which at that time had a 28% alcohol content. Another loophole was that most provinces allowed doctors to prescribe alcohol for their patients. Of course there was an enormous increase in the number of patients seeking and receiving treatment from a quart of whiskey! Given the difficulties enforcing a complete ban on alcohol, slowly the provinces opted to sell liquor in government-controlled liquor stores instead, and prohibition came to an end.

c) The First Female Member of Parliament, 1921

In the 1921 federal election, **Agnes Macphail** won her riding in rural Ontario to become Canada's first female Member of Parliament. As an MP, Macphail called for prison reform, which led to the investigation of Canada's prisons in the mid-1930s. Macphail also founded the Elizabeth Fry Society of Canada, an organization to help women who had been imprisoned. In 1954, Macphail was to be appointed to the Senate, but she died before the appointment was fulfilled.

d) The Famous Five and the Persons Case, 1929

As mentioned previously, by 1918, all women could vote in federal elections, although the right to vote in provincial elections was not accepted everywhere in Canada until 1940. However, the idea of complete emancipation (freedom) and equality for women was far from reality. After the war, despite their contributions, women often found themselves cast yet

again in the role of homemaker.

(i) Key Players

The **Famous Five** was composed of five Alberta women: Emily Murphy, Nellie McClung, Henrietta Muir Edwards, Louise McKinney and Irene Parlby.

(ii) The Issue

The Famous Five asked the Supreme Court of Canada to consider and rule on the following: Does the word “person” in Section 24 of the British North America Act include female persons?

(iii) Key Events

- In 1916, **Emily Murphy** became the first woman judge in the British Empire. However, in her own court, lawyers challenged her right to preside. They claimed that women were not considered “persons” under the British North America Act.
- In 1927, the Famous Five asked the Supreme Court of Canada to rule on whether or not women were considered to be “persons” as defined by the BNA Act of 1867.
- After three months of consideration, the Supreme Court ruled that the Fathers of Confederation had not intended for the word “qualified persons” to apply to women.
- In 1928, the Famous Five, with the assistance of Prime Minister King, appealed to the British Privy Council, at the time Canada’s highest court, and asked it to consider the “**persons**” case.
- In 1929, the British Privy Council responded by explaining that the word “persons” includes members of both the male and female sex, and that women are eligible to become members of the Senate of Canada. Furthermore, “to those who would ask why the word ‘person’ should include females, the obvious answer is, why should it not?”

(iv) The Legacy

The victory of the Famous Five paved the way for greater participation of women in public life. However, none of the Famous Five earned the honour of serving in the Senate. The distinction of being the first woman appointed to the Senate belongs to Cairine Wilson, who was appointed in 1930.

B. CANADA IN THE THIRTIES: THE GREAT DEPRESSION

1. THE WORLD ECONOMY AFTER 1919

The nineteenth century was essentially the century of *laissez faire* in economic matters. The literal translation of *laissez faire* is “let do.” Basically, governments let the economy do whatever it wanted—they did not interfere. However, after the First World War, it became obvious that the *laissez faire* system could not be completely restored. Governments found that they were forced to exercise more control over social and economic matters than had been the case before the war. The amount and scope of this control has been growing steadily ever since.

After the First World War, the world’s financial centre moved across the Atlantic from London to New York. The United States had become the

world's financial capital. While there are significant exceptions (e.g. Britain), generally speaking, industrialized countries experienced an economic boom in the twenties. Based on expanding markets and an increased demand for consumer goods such as the automobile and electric appliances, economies continued to expand until 1929.

2. ECONOMIC VOCABULARY: DEFINITIONS

a) Revenue

Money taken in by the government—the most usual sources are taxes and customs duties (a tax on imported goods).

b) Expenditures

Any money spent by the government.

c) Budget

A spending plan developed by the government—all revenues are totalled and all expenditures for the coming year are announced. The budget tells us the government's spending priorities.

d) Balanced Budget

This is a budget where the expenditures and the revenues are equal. Before the Great Depression, with the exception of wartime, governments always balanced their budgets.

e) Deficit

This is a situation where the government's budget shows expenditures that are larger than its revenue. The difference between expenditures and revenues is known as the deficit. The term deficit also refers to the total of all borrowed money by the government for that year.

f) Currency

This term refers to the actual money used in a particular country. At one time, the value of a country's currency was determined by the amount of gold, and sometimes silver, that a country possessed. Today it is much more complicated. Some of the factors that help determine the value of currency today are the productivity of the country, the size of the national debt, interest rates, and probably most importantly, its relative value compared to other currencies.

g) Capitalism

Capitalism is an economic system in which private individuals and business firms carry on the production and exchange of goods and services through a network of markets.

h) Market Economy

Countries that have a capitalist economic system are often said to have a **market economy**. In a market economy, individual producers and consumers determine the kinds of goods and services produced, and the prices of those products. The most basic part of any market economy is the market itself—anyplace where goods (things) and services (like paying a mechanic to fix your car) are bought and sold. Private businesses make and sell most of those goods and services. Markets allow buyers and sellers to come together so that goods and services can be exchanged for profit. For example, the stock market is a place where businesses and investors can "meet" to buy or sell stocks. A market doesn't always have

to be a physical place—in fact many markets operate via technology, such as a telephone line or the internet.

(i) Supply and Demand

This is a concept which helps to explain the pricing structure in a market economy. **Supply** is the availability of a particular product or commodity. **Demand** represents just what it implies—how badly people want that product. Traditionally a great supply equals lower prices, and great demand delivers higher prices. The opposite of these rules is also true.

(ii) The Business Cycle

It is quite normal for market economies to go through cycles of prosperity and **recession** (when economic activity is in decline) every five or six years—this is called the business cycle. Because this wave pattern has repeated for decades, business leaders and politicians assume that any recession will naturally correct itself after several years. However, occasionally there are also periods of extreme prosperity (called a **boom**) followed by a serious downturn (called a **bust**) and a deep prolonged recession (called a depression).

3. CAUSES OF THE GREAT DEPRESSION

On October 29, 1929, the economic boom of the twenties abruptly came to an end. The stock exchanges of New York, Toronto, and Montreal “crashed,” and North Americans were plunged into the **Great Depression**. By the time the Depression was over, Canadians had suffered through massive unemployment, thousands of bankruptcies, climatic disasters, and widespread poverty. As a result of these troubles, attitudes towards the poor began to change, and Canadians saw the development of our modern-day social safety net. New political parties were born, along with new ideas about how to deal with economic problems.

Before we examine the causes and consequences of the Great Depression, students should be aware that the Depression was a “made in America” depression (i.e., it started there). The main causes of the Great Depression in Canada were:

a) Overproduction

During the 1920s, many industries were expanding, and profits were spent on adding to factories or building new ones. Huge supplies of manufactured goods were simply stockpiled (**overproduction**). Eventually all of these unsold goods caused factory owners to panic, so they slowed down their production and laid off workers. Now these workers had even less money to spend on buying goods, so sales slowed down even more. Basically the industrial capacity of both the U.S.A. and Canada had expanded beyond the ability of the consumer to consume.

b) Canada’s Reliance on Exporting Staple Products

Canada’s economy depended heavily on a few basic products known as **staples** (like crops, timber and minerals). These staples were Canada’s most important exports—as long as other countries kept buying them, Canada’s economy would be strong. From 1925 to the end of the decade, Canadian wheat farmers grew record quantities of crops and sold them for record prices. However in 1929, the United States, Australia, and

Argentina also had record numbers of crops, and thus competition for sales was extreme. Canadian farmers were left with large quantities of unsold wheat, and prices dropped dramatically. To add to the problem, prairie farmers were faced with terrible droughts over several summers in a row. People often refer to this time in history as the "Dust Bowl of the 1930s." Without adequate rainfall, crops died. With no wheat to be shipped, and no flour to be ground, railways and flour mills lost business. This caused a chain reaction in many parts of the Canadian economy.

c) Canada's Dependence on the United States

Because the Canadian economy depended so much on staples, which were often exported to other countries, any decline in foreign economies also hurt Canada's economy. The most important economy for Canada was the United States—40% of our exports were sold to the Americans. Therefore, when the American economy failed, the Canadian economy was soon to follow.

d) The Stock Market Crash

When the stock market crashed on **Black Tuesday**, October 29, 1929, it did not by itself cause the Depression. It was merely an indicator that something was already terribly wrong with the system.

First, it is important to understand how the stock market works. Take for example, a scenario in which a company wants to expand—it would need money in order to do so. To get the money that it needs, the company would sell stocks (also called shares) in the company. Investors who bought these stocks would receive a part of the company's profits depending on the number of shares that they owned. If the company does well, the value of the stocks would rise. At this time, the stockholder may choose to sell shares at a profit, or hold on to them with the hope that the value of the stock might continue to rise even higher, thereby allowing the stockholder to make even more money down the road.

In the 1920s, many investors bought their stock shares on margin. **Buying on margin** meant that investors were essentially buying stocks with borrowed money with the hope that in a short time the stock would rise significantly. At that point they would sell, re-pay the loan, and harvest a large profit. This whole process is also known as **speculation**.

In Canada, bank presidents and business leaders strongly believed that the Canadian economy depended upon international trade, particularly with the strong wheat crops. Despite indications that the price of wheat was falling, investors and speculators continued to pour money into the stock market. As stocks began to decrease in value, investors began to worry and lose confidence in the companies whose shares they had purchased. Many investors wanted to sell their stocks quickly before prices fell even further, and therefore, investors began to sell large volumes of stocks. As more investors panicked and began to sell their stocks, the prices of stocks continued to drop dramatically. The downward spiral had begun. Many stocks became worthless, as more and more investors began to panic. On October 29, 1929, the value of several key shares on the Toronto Stock Exchange dropped by \$1 million per minute! Although very few Canadians actually owned stocks, millions of Canadians were affected (mostly

through loss of jobs and falling prices for their products) by the stock market crash.

e) Economic Protectionism and Tariffs

Throughout the 1920s, there was an increasing trend toward protective tariffs. **Tariffs** are duties (money) collected on goods coming into a country. Because the U.S.A. did not need the world's raw materials nearly as much as other great powers, it became **protectionist**. This meant that the government protected home industries from the competition of foreign goods, by discouraging imports through tariffs. American protectionism caused other countries to lose their export markets—for example, if Canada was trying to sell its wheat to the Americans and they imposed tariffs (meaning that Canadian wheat would become more expensive in the U.S.A.), then Canadian farmers would suffer. In this way, other countries had little choice but to protect their own industries and products by also raising tariff barriers. Ironically, this cycle only made the problem worse, as trade was restricted even further.

f) International Debt after the First World War

When the U.S.A. lent money to foreign nations after the First World War, those nations often came to depend on their ability to sell their products to the U.S.A. in order to raise the money to repay those loans. When the U.S.A. led the protectionist movement, international trade was reduced, and those countries lost the ability to pay back their loans.

4. RESPONSES TO THE DEPRESSION

Some of the attempts to respond to the Depression, such as increased tariffs and general belt-tightening (cost-cutting), have already been mentioned. They only served to make matters worse. You ask, "how could leaders have been so short-sighted?" Part of the problem was that no one realized the extent to which national economies had become international in nature. Another reason for the slow reaction was that any solution to a problem of such magnitude would necessarily be radical. Most old, stable democracies did not get to be old, stable democracies by being radical— at this time, however, they simply could not see their way. Those countries, which adopted radical solutions, such as Germany, were not old, stable democracies, nor did their democratic governments survive the solutions imposed by their leaders.

a) The United States

The Depression hit the U.S.A. harder than most other countries. Perhaps the reason for this was their ideological problem with government intervention in the economy. While other governments introduced "socialist" measures to soften the blow of the Depression, President Hoover toughed it out. Whole communities of unemployed workers lived in tarpaper shacks. These makeshift communities were named "Hoovervilles" in his "honour." Put more simply, Hoover refused to introduce any relief measures at all. Leading up to the next election, Franklin Roosevelt introduced the **New Deal** for Americans, which he promised to implement in 100 days of action if he were elected, which he was. The New Deal was simply a set of relief programs, which were to put Americans back to work.

(i) Keynesian Economics

John Maynard Keynes was a British economist who proposed radical solutions. Instead of belt-tightening, Keynes proposed that governments should spend their way out of the Depression. This was based on his analysis of the inward spiral created by the Depression. A lack of cash in circulation was making the Depression worse each day. He proposed that governments should borrow money, to be repaid in the future when the economy recovered, and spend it on huge employment projects. This would be called **deficit financing**. Further, these projects should be of value, not just make-work. According to this scheme of financing, modernizing the infrastructure upon which modern economies depend would make ideal projects. This responsibility to direct the economy was the government's task, simply because it was the only institution large enough to reverse the spiral. The idea seems so simple to us today that we find it difficult to assess why governments took so long to understand what he was saying. Old economic ideas had to be buried before Keynes' ideas could be accepted. In the nineteenth century, Adam Smith had proposed (and most countries adopted) the idea that the government should play little or no role in the economy. Therefore most countries initially ignored Keynes' radically new ideas. Notable exceptions were Hitler's Germany, the U.S.A., and Japan. Franklin Roosevelt called Keynes a "fool," but in spite of his protests, Roosevelt's New Deal was a very real version of what Keynes was proposing.

b) Canada

As unemployment worsened across Canada, Canadian citizens and the government addressed the problem in different ways. Individuals tried to sell products door-to-door, they panhandled, they approached churches and charities for help, they "drifted" in search of employment, and as a last resort, they collected public relief (called the "dole" or "pogey") which came in the form of vouchers that could be exchanged for goods.

(i) Riding the Rails

"Riding the rails" referred to hitching a ride on freight trains by trying

UNEMPLOYMENT RATES IN CANADA DURING THE GREAT DEPRESSION

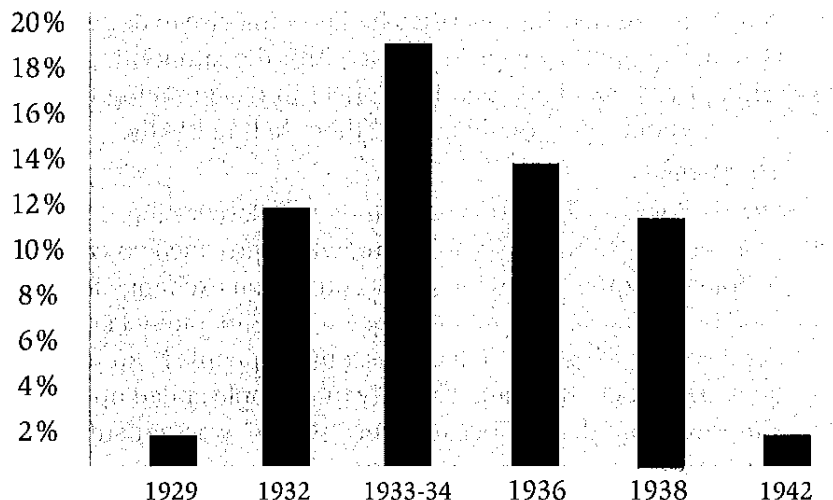


CHART SHOWING AVERAGE PER PERSON INCOME 1929 AND 1933

	1928-1929 \$ per Person	1933 \$ per Person	Decrease
BRITISH COLUMBIA	594	314	47%
ALBERTA	548	212	61%
MANITOBA	466	240	49%
NEW BRUNSWICK	292	180	39%
NOVA SCOTIA	322	207	48%
ONTARIO	549	310	44%
PRINCE EDWARD ISLAND	278	154	45%
QUEBEC	391	220	44%
SASKATCHEWAN	478	135	72%
ALL OF CANADA	471	247	48%

Interpreting Graphs and Charts.

Interpreting graphs and charts can be tricky. We often need more information than the graphic offers to fully understand the information. The chart above, for example, distinctly shows a drastic decline in average income in every province. But this does not necessarily tell the whole story. If you, for example, average the number zero and the number ten you get five. If these numbers represent \$ then this is drastic, bordering on fatal, for the poor person that is at zero. The point is you cannot assume that everyone got some money during the Great Depression. We must introduce the simple fact that Canada did not yet have a system of social security which would look after the poor. Many Canadians had no money. This particular chart then is meant to tell a large story, not one that indicates how all Canadians are doing during the Great Depression.

to ride on top of cars, inside cars (if they could get in) or on top of timber or other products on open flat cars. Initially, people rode the rails in search of employment, but when there was none to be found, large numbers of single unemployed people moved back and forth across the country because they had nothing else to do. Although the Canadian railway police tried to control the situation, catching and jailing transients had such little effect in discouraging the travellers that the police eventually chased them halfheartedly.

(ii) Pogey

“Pogey” is similar to our modern-day welfare system. It was a program developed by the government, which provided vouchers to those people who qualified, which they could then exchange for goods like food or other essential items. Pogey was deliberately kept lower than the lowest paying jobs so as to discourage people from wanting to be on it. However, the result was only that people ended up starving and suffering from disease because the “pogey” was not sufficient.

(iii) Unemployment Relief Camps

No government was adequately prepared to solve or address the economic collapse. Federal and provincial governments largely downloaded the responsibility of providing relief to the municipalities, which did not have the resources to deal with such an acute disaster. Prime Minister Mackenzie King was unwilling to deal with the Depression. When the provincial governments asked for federal assistance with the problem of unemployment, King responded that he would not give them a “five-cent piece.” Therefore, in 1930, King was defeated by R.B. Bennett in the federal election. Prime Minister Bennett initially set up **Unemployment Relief Camps** for single, unemployed men. At these camps, men laboured on public works projects such as building roads, for \$0.20 per day plus room and board. Bennett also set up high tariffs to protect Canadian industries. Bennett thought that other countries would lower their tariffs because they would need Canada’s staple products, but by 1935, only Britain had lowered its tariffs.

(iv) Bennett’s New Deal

In response to the effects of the Great Depression, Canadian Prime Minister R. B. Bennett eventually introduced a Canadian version of President Roosevelt’s “New Deal” in 1935. Bennett’s version called for:

- Progressive taxation (the more you make, the more you pay)
- Maximum number of hours in a work week
- Introduction of minimum wage
- Stronger regulation of working conditions
- Unemployment insurance
- Health and accident insurance
- Revised old age pension plan
- Agricultural support
- A marketing board to regulate wheat prices

Many of these programs, which were eventually initiated as a result of the Depression, make up most of what is called the modern “social safety net.” These benefits help to protect individuals and businesses in times of economic crisis. Before the Depression, no such provisions existed. However, many people felt that Bennett’s response was too little, too late. In fact, his New Deal did little to help the problem of unemployment. As with former President Hoover of the United States, many negative terms were also associated with Prime Minister Bennett—“Bennett barnyard” (abandoned prairie farm), “Bennett blanket” (newspaper), “Bennett buggy” (car that no longer ran so it was drawn by horses), and “Bennett coffee” (roasted wheat).

(v) On-to-Ottawa Trek and the Regina Riot

The relief camps were not enough to address the major financial crisis caused by the Depression. In June 1935, thousands of relief camp workers, embittered by their experience and frustration, boarded trains in Vancouver bound for Ottawa, which became known as the **On-to-Ottawa Trek**. This protest gathered strength as it crossed the country. These workers wanted “work with wages” or “real jobs.” When they reached Regina, they were stopped by the RCMP, and a riot broke out (called



P.M. R.B. Bennett

the **Regina Riot**). More than 300 RCMP dressed in riot gear were concealed in large moving vans, with another 50 nearby on horses. Using baseball bats, billy clubs and tear gas, the RCMP fought the crowd for more than three hours. Dozens of “trekkers” were injured during the riot, and one officer was beaten to death. One striker did end up meeting with Prime Minister Bennett, but to no avail. As a result, people began to turn against Bennett in favour of Mackenzie King. In October 1935, Mackenzie King soundly defeated Bennett in the federal election.

(vi) Diversion

In the middle of the Depression, one of the most unusual stories of the 1930s gave Canadians the chance to temporarily escape from their economic woes. In 1934, five babies (quintuplets) were born near North Bay, Ontario—the **Dionne Quintuplets** were the first set of quintuplets to live for more than just a few days. Soon after they were born, the Ontario government took over the welfare of the Quints. They were sent to a nursery/hospital where they were cared for by a special team of doctors and nurses. The Quints rarely saw their parents or other siblings, and were constantly being tested and observed. The Ontario government soon built a road to the nursery so that tourists could watch the Quints play. It is estimated, that the Quints generated a tourist industry of over \$500 million—people bought everything from postcards to fertility stones. After a nine-year legal battle, the Quints were finally returned to their family.

5. COLLAPSE AND CONSEQUENCES OF THE GREAT DEPRESSION

The collapse was quick, and the list of consequences, lengthy. A few of the more important short and long-term consequences are discussed below.

a) Unemployment

As the Depression deepened, unemployment worsened. Generally unemployment ran about 25% in industrialized countries. This further reduced demand. It is important to remember that nations had not yet built “safety nets” such as employment insurance or welfare payments. Therefore, the effects of unemployment were much more severe than they would be today. Students should be aware that when a worker gets laid off, he, as an individual consumer in that era, no longer created a demand for goods. At this time when a person fell on hard times financially they usually relied on family for support. The problem with this approach, however, was that other family members were often in the same dire financial situation. As more and more workers became unemployed, this decline in demand caused the depression to deepen.

b) Banking Failures

As businesses and farms who owed money to banks went bankrupt, the banks too, went bankrupt in a sea of bad loans. This, in turn, hurt depositors who often lost their life savings. In the United States, there were over 6,000 banking failures. Canada had a much more conservative banking system and thereby, generally speaking, Canadian banks survived.

c) Political Consequences

In some countries like the United States, the political system was severely tested by the effects of the Great Depression. Americans began to doubt the validity of the "American dream." While revolution was not imminent, it is worth noting that even President Roosevelt of the United States was concerned enough to say "People who are hungry and are out a job are the stuff of which dictatorships are made." In countries like Germany, the political system did not survive the ravages of the Great Depression. In Canada, the most dramatic political response to the Great Depression was the formation of new political parties. The Canadian Co-operative Federation (later the N.D.P) and the Social Credit Party were two examples of these new parties. They each would have a great impact on Canadian political life.

d) The Changing Role of Government

Generally speaking, at the start of the Great Depression, governments first responded to economic downturns by "tightening their belts" and cutting back on government spending until it matched revenues. As the Depression deepened, more enlightened leaders realized that government would have to take a more active role in caring for the poor. Unemployment insurance, sick benefits, child benefits, welfare etc., all directly or indirectly originated during the Depression. In time, the role of the government in the economy and everyday life grew by leaps and bounds. *Laissez faire* was dead. Ever since the Great Depression, national economies have been strictly controlled by elected governments. Indeed, that became one of their major responsibilities. Since the Great Depression, we have come to expect our governments to manage the economy through tax policy (increasing and decreasing taxes), monetary policy (raising and lowering interest rates), fiscal policy (increasing and decreasing government expenditures), and even trying to control the value of the national currency.

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