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### *The Keynesian Arithmetic in War-Time Canada: Development of the National Accounts 1939-1945.* By Enid Barnett. (Kingston, On.: Harbinger House Press, second edition, 2000. 91 p. ISBN 0-9683129-3-4)

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*The Keynesian Arithmetic in War-Time Canada: Development of the National Accounts 1939–1945.* By Enid Barnett. (Kingston, On.: Harbinger House Press, second edition, 2000. 91 p. ISBN 0-9683129-3-4)

This lively and well-documented monograph examines the construction of an unofficial set of estimates of Canadian national income and expenditure based on Keynes's methodology by a small group of civil servants, notably Robert Bryce, John Deutsch, and especially George Luxton. Their approach superseded the earlier work of the Dominion Bureau of Statistics (based on national accounts methodology devel-

oped by Simon Kuznets in the United States) as the basis for planning war-time production and fiscal policy and, from 1943, postwar reconstruction. Beyond its immediate topic, Barnett's study sheds light on Canadian economic policy-making, the reception of Keynesianism in Canada, and the competing approaches to national accounts. Through archival research, Barnett uncovers conflicts and interactions only glimpsed in more general works such as David W. Slater's *War Finance and Reconstruction: The Role of Canada's Department of Finance 1939–1946* (Ottawa, 1995). Earlier neglect of this episode reflects in part the accident that, while several of those involved achieved later prominence (Bryce as Clerk of the Privy Council and Deputy Minister of Finance, Deutsch as founding chairman of the Economic Council of Canada and Principal of Queen's University), the central figure, George Luxton, died in January 1945, at the age of thirty.

Canada's first official national income estimates, for the years 1911 and 1918, were published by the Dominion Statistician R. H. Coats in 1919. Further estimates by the Dominion Bureau of Statistics (DBS) in *Canada Year Books* from 1922–23 to 1937 measured the output of services by arbitrarily assuming that the value of output per employee was the same in services as in commodity production. This approach was abandoned in the face of efforts sponsored by the Bank of Nova Scotia and the Rowell-Sirois Royal Commission on Dominion-Provincial Relations to produce national income estimates incorporated direct estimation of services. (Prof. D. C. MacGregor, who produced the Bank of Nova Scotia's estimates in 1935, headed the Rowell-Sirois Commission's National Income Committee, whose study appeared in 1939.) The DBS undertook a new study of the *National Income of Canada 1919–1938* (only Part I of which was published, in 1941), based on Kuznets's approach at the National Bureau of Economic Research in the US. This provided the basis for national income estimates published by the Bureau in the *Canada Year Book* until 1945, but was not well received by the Finance Department, the Bank of Canada, or Canada's war-time allies. The crux of the problem was estimating income produced by government. Following Kuznets, the Bureau in effect treated government as an entrepreneur, with taxes as the price paid for its services. In war-time, with much government spending financed by borrowing, this understated government expenditure and national income by the amount of the budget deficit—that is, by 10 per cent of national income, as John Deutsch (a coauthor of the Rowell-Sirois Commission study) estimated in an April 1941 critique of the DBS study written for the Governor of the

Bank of Canada. A British Treasury note on Canada's contribution to the war effort relative to its resources criticised Canada for underestimating its national income and for basing calculations on "theoretical reasonings and rough estimatings which make it a ridiculous method to choose" (Barnett, p. 74, n. 34). In addition to this problem of method, the Bureau had only a single junior statistician and a clerk working full-time on national income. Sidney Smith, the principal author of the 1941 DBS study, was in charge of all business statistics, with national income as an additional secondary responsibility.

Deutsch and Bryce persuaded W. Clifford Clark, the Deputy Minister of Finance, that war-time fiscal policy should rely on national income estimates following the methodology of Maynard Keynes's *How to Pay for the War* (New York: Harcourt Brace, 1940), national income tables by Keynes's disciples James Meade and Richard Stone for the British White Paper on War Finance, and Martin Gilbert's Master Table for US national product. Bryce, then secretary of the National Economic Committee chaired by Clark, had attended Keynes's Cambridge lectures on the general theory of employment from 1932 to 1934, and then brought Keynesian economics to Harvard (a Keynesian connection which Barnett assumes the reader will already know without being told). According to Bryce, the long-serving Dominion Statistician Coats had little interest in or understanding of national income accounts, so the DBS lacked the institutional culture as well as the personnel to create Keynesian national income and product accounts (including government spending as a measure of income generated by government). Unofficial estimates (classified secret or confidential), using the methods of Keynes, Meade, Stone, and Gilbert, were produced within the Bank of Canada's Research Department, primarily by George Luxton. These, rather than the published estimates of the DBS, were used in policy-making by the Department of Finance, the Bank of Canada, and later the Department of Reconstruction. Publication of the already-completed Part II of the DBS study was blocked. Comparability with British and US accounts was stressed, and it was accepted that national accounting was more advanced in those countries. When Keynes, Meade, and Stone expounded the methods of the British White Paper on War Finance to the Post-War Economic Talks in London in October and November 1942, "none of the Dominion representatives present knew enough about the subject to ask anything but superficial questions" (Barnett, p. 59). Finally, in the summer of 1944, Luxton became

Chief of the Planning and Development Staff of the Dominion Bureau of Statistics, with responsibility for a new set of national accounts.

Enid Barnett's concise monograph (of which the first edition appeared in 1998) provides a fascinating, well-documented account of the bureaucratic and intellectual influences that reshaped Canada's national accounts during the Second World War. Much has been written about how Keynesianism came to shape Canadian macroeconomic policy-making, with Robert Bryce as a central figure. Now Barnett has told the related story of how Keynesian ideas came to Canada's national accounts, and has rescued Bryce's war-time associate George Luxton from undeserved obscurity. Her narrative is also of interest as a case study of institutions switching from one intellectual approach to another.

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