THE BALANCE OF PAYMENTS DIFFICULTIES OF CANADA IN RELATION TO HER INDUSTRIAL ECONOMY AND PATTERN OF FOREIGN TRADE - SOLUTION PROPOSED

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PREFACE

Canada has a past to be proud of and a future to dream about... but a very difficult present. As regards the past, her ability to expand her industrial production enabled her to make an immense contribution to the war effort. As regards the future, her prosperity would seem to be assured: she has mineral resources, vast forests, a rich soil and above all, an enterprising and stable people who are prepared to work hard and are unlikely to be swayed by any doctrinaire political views. But her present position is difficult; she is so short of United States dollars that she has an adverse balance of payments; in the immediate present she is faced with an extremely unpalatable austerity program or virtual international insolvency.

As to long-run corrective measures, Canada has an intricately speculative decision to make. Should she gamble on the kind of world that brought her dollars in the past? Does she have any alternative to the world as it was? Or can she stand on her own two feet and develop as Canada and not as part of the British Empire or part of the United States?

Such are the considerations that will be weighed and analysed in the pages following, in an attempt to indicate the measures that will lead to a reduction of Canada's external vulnerability and a consequently greater degree of domestic stability for her.

INTRODUCTION

A true appreciation of Canada's economic problems must begin with an understanding of the world situation. Such has not always been the case: it was not true of Canada before Confederation, nor of Canada in Sir John A. MacDonald's day, nor was it true in Sir Wilfred Laurier's day. It began to be true in the years that Sir Robert Borden was in office. And now Canada, as the third largest exporter in the world, as the world leader in per capita industrial production, finds herself completely enmeshed in the problems and difficulties of an unsettled world economy.

The war of 1939-45 has left a legacy of human want and misery that can be alleviated only through vast supplies of food, clothing, medicines, and other necessities. Moreover the conflict has wrought staggering destruction of the productive equipment and resources of many countries. Other countries also, although less directly subject to devastation, have suffered serious impairment in their productive capacity and working capital for normal civilian requirements, through concentration on the war effort.

The deterioration in world position of the United Kingdom and Western Europe presents a forceful example. In normal times, most of these countries enjoyed a standard of living somewhat inferior to that of the United States and Canada, but higher than that of any other large aggregate of population in the world. They had brought their industry and agriculture to a high standard of efficiency. As trading nations they were predominant, handling nearly half of the world's total trade and operating as a mainspring of the whole delicate mechanism of multilateral payments. They owned nearly two-thirds of the world's shipping tonnage. Their income from foreign investments and other invisible exports was sufficient to purchase one-quarter of their imports from the rest of the world. The exceptional degree of specialization in their industry and agriculture was responsible for their high standard of living. Such trade structure, however, being highly developed and delicate, depended for its working efficiency upon the smooth functioning of international trade and the uninterrupted flow of goods and services. The war of 1939-45 destroyed this process, and a break-down occurred which altered the whole basis of the European economy, as well as the basic structure of world trade.

The obvious devastation in Europe was enormous, and in many sectors industrial production was brought to a virtual standstill: in Belgium, France and the Netherlands, production was reduced to 30-40 percent of pre-war level and in Italy to 20 percent. There was also a less obvious, but equally great devastation in the form of deterioration of capital and manpower, deterioration of agricultural equipment and soil fertility, over-cutting of forests, and such economic dislocations as monetary disorders, the upset of trade relationships, the concentration on war industries, the displacement of labour and the exhaustion of stocks.

Agriculture, industry and trade of the European countries was therefore twisted and distorted by their own war efforts as well as by policies imposed by armies of occupation. Widespread inflation was a natural result of the vast war outlays, the acute shortage of capital and consumer goods, and huge requirements for reconstruction.

It was inevitable that the whole trade mechanism of which Europe was the centre should not have been re-established. Instead of supplying itself with most of its basic foods, with its fuel and iron and steel manufactures, Europe has had to seek large quantities of such commodities from the Western Hemisphere. Moreover, while the demand for goods from the Western Hemisphere expanded enormously, export production as a means of repayment was negligible, and such conditions, coupled with rising prices in the United States and Canada, made it more and more difficult for Europe to find means of payment.

The enormous trade gap was covered temporarily by UNRRA aid, by loans and credits from the United States and Canada, and by drawing on accumulated reserves of gold, dollars and other assets. More recently, the United States has passed the Economic Co-operation Act of 1948 which provides $5,300 million for the first twelve months of a rehabilitation program for sixteen nations of Western Europe.

However the real momentum toward recovery depended and still depends upon the effort of the nations themselves. It would appear however that their efforts are directed towards recovery along national and bilateral lines, rather than over-all international recovery. Europe has become a complex mesh and network of bilateral trade pacts despite the intentions avowed in the Geneva and Havana trade pacts.

> The total possible number of such pacts, which are the very antithesis of the International Trade Organization Charter, by every combination and permutation between the nations of Europe is 231. Since the war, no fewer than 113 such pacts have been made. (1)

This vast network of bilateral trading agreements, at variance with all the pious hopes of the International Trade Organization, is designed to

(1). Adamson, Rodney, speaking on External Affairs in the House of Commons May 3, 1948, Hansard, Vol.IV, 1948 session, Ottawa, King's Printer and Controller of Stationery, 1948, p.3538.

increase trade among the signatories, and to exclude those outside the agreements. This exclusion is enforced by foreign exchange control, import quotas, monetary blocs, customs unions etc., in fact, a multitude of barriers that hinder trade with Europe. In the meantime these countries are attempting to increase production above the large demands of their own programs and to provide an export surplus. Not until sizeable exports are streaming out of these countries will they be able to break through the rigid confines of the barter agreements that now inhibit the trade of Europe; not until then will a multilateral clearing house succeed in restoring the convertibility of European currencies; not until then will a freeing of the multitude of barriers to trade be feasible.

What does such a situation mean for Canada? Inasmuch as these bilateral agreements are an extended form of barter, it means that a pattern of trade has been and is being established which reduces or excludes entirely any participation by Canada. Herein lies the immediate cause of her balance of payments difficulties or as it is more commonly called, her shortage of United States dollars.

The revolving movement of goods between the United States, Europe and Canada, the great triangle of the North Atlantic which carried the largest part of the world's commerce and made Canada richer than any nation of its size in history, has collapsed. The dollars that Britain spent in Canada were earned triangularly via sales to the United States or, equally important, quadrilaterally by way of the Carribean Sea, South America and the Far East. This admirable piece of economic structure, like any other building, was never stronger than its component members, and when one side collapsed the others were put to a terrific strain; - the pre-war system of multilateral settlements had broken down. Canada could no longer follow the system of applying current account European credits against current account United States deficiencies; European currency was no longer convertible into United States dollars.

On the one side then, Canada was faced with a reduction or a drastic curtailment of her overseas sources of United States dollar supply; and on the other side, she encountered an uncommonly heavy domestic demand for United States dollars that necessitated a heavy drain on official reserves. This domestic demand has been the result of two factors: (1). Canada, since 1946, has been having an unprecedented investment boom, which has greatly expanded her imports from the United States; (2). her high level of income stimulated imports of luxury type goods. During 1947 for example, her imports from the United States exceeded her exports to that country by a ratio of two dollars to one, and, with her overseas sources of United States dollars either reduced or entirely cut-off she was forced to draw upon her gold and dollar reserves to finance a great portion of her imports from the United States. This situation became so serious that more than half of her dollar and gold reserves flowed to the south in the massive financial hemorrhage of 1947.

In the soothing language of optimists, this dollar dilemma is called a temporary embarrassment. Actually however, it has wrenched Canada's pre-war trade pattern out of joint, for in the visible future, Europe will not be able to buy on the old scale in this country. Canada thus is faced with the alternatives of: (1). permanently restricting her American imports and hence reducing her standard of living; (2). vastly expanding her exports to the United States and thereby minimizing the imbalance in her trade with that country; (3). increasing the field of Canadian self-sufficiency. It is well to add that in both the short and long-run perspective, Canada has the greatest interest in a balance at the highest possible level of trade. In other words, she should seek adjustment of her exchange difficulties by expansion of sterling imports and of dollar exports, with moves towards self-sufficiency aimed largely at reducing her dependence on United States supplies.

The purpose of this paper then is to evaluate the above alternatives in the light of present and future world prospects amd to discuss in which direction Canada's efforts will be most productive. It is the long-term solution of the dollar problem that will determine whether the level of employment that Canada hopes to maintain will yield also a high or only a relatively low income. Moreover, the search for means to reduce her external vulnerability will produce much of the material required for preparing a successful program of internal stability.

However, certain limitations as to the practical value of such a discussion must be noted. As indicated by the title, this paper covers a wide field and all ramifications cannot be explored. However, such an effort is necessary to obtain an over-all picture of that which has happened or is happening, in order that research, not merely of the pulse-taking or diagnosis type, but research aimed at producing positive guidance for Canadian development, will be pursued. Moreover, although the significant qualitative changes in Canada's world position are clear, all difficulties are not yet delineated, and consequently the degree to which changes will be necessary is not completely evident. And lastly, there is always the possibility of fundamental changes in world conditions which would have the effect of reversing present prospects.

CHAPTER 1

DELINEATION OF THE CANADIAN BALANCE OF PAYMENTS PROBLEM

No more dramatic proof can be offered to indicate the depth of the troubles in which the Nations of the World find themselves enmeshed, or the extent of the disequilibrium in their trading relations, than the fact that Canada's balance of payments position has deteriorated to such an extent that drastic adjustments in her trading relations are necessary if she is not to become insolvent. Her position has become extremely precarious because she is placed between the dollar economy of the United States and the barter economy of the rest of the world. Her transactions with the United States economy must be cash on the barrel head, whereas her trade with the rest of the world is financed in the main by export credits.

Inasmuch as a nation, like an individual or any other economic entity, cannot pay out more than it receives except by drawing on its cash reserves or borrowing, and inasmuch as Canada's Current Account transactions with the United States have reflected a persistent deficit, Canada, has been forced to draw heavily on her reserves of gold and United States dollars to finance trade between herself and her neighbour to the South.

1. Canada's holdings of gold and United States dollars, September 15, 1939 to December 31, 1945.

The following table will show the variations in total official holdings of gold and United States Dollars since the commencement of Foreign Exchange Control, on September 15, 1939.

TABLE 1 (1)

Canada's Holdings of Gold and United States Dollars
(in millions of United States dollars)

	F.E.C.B. and Bank of Canada	Dominion Government	Private [1]	Total
September 15, 1939	238.7	22.4	132	393.1
December 31, 1939	272.8	33.4	98	404.2
December 31, 1940	309.3	20.8	2	332.1
December 31, 1941	164.1	23.5	-	187.6
December 31, 1942	242.9	75.6	-	318.5
December 31, 1943	573.2	76.4	-	649.6
December 31, 1944	800.1	102.1	-	902.2
December 31, 1945	1275.9	232.1	-	1508.0
December 31, 1946	1222.3	22.6	-	1244.9
December 31, 1947	458.4	43.3	-	501.7

1. exclusive of working balances

Taking the period September 15, 1939 to December 31, 1945 as a whole, Canada substantially increased her liquid balances in the form of gold and United States dollars, but at the cost of the other assets and increases in liabilities. The initial adjustments to meet the Canadian shortage of dollars were of an administrative character - the introduction of exchange control and the control of exports of capital. However, as the disequilibrium widened in Canada's Current Account with the United States other measures were developed. The agreements entered into at Hyde Park in the Spring of 1941 led to large United States purchases of munitions, military equipment and raw materials from Canada, - purchases that increased rapidly after the United States entered the war. Later during the war there were exceptionally large Canadian current receipts from the sale of grain to the United States and United States government expenditures on defence projects in Canada.

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(1) Foreign Exchange Control Board, Annual Report to Minister of Finance For The Year 1947. Ottawa, The King's Printer and Controller of Stationery, 1948, p.1.

Another source of United States funds arose from capital inflows from the United States into Canada through the purchase by Americans of Canadian securities, particularly bonds and debentures. Furthermore, throughout the war there continued to be an appreciable liquidation of Canadian holdings of United States securities.

2. Canada's holdings of gold and United States dollars December 31, 1945 to December 31, 1947.

However, figures for the years 1946 and 1947 show a substantial depletion of official holdings of gold and United States dollars. During these years the net deficits on current account with the United States increased from $613 million in 1946 to the extraordinary high figure of $1138 million in 1947. The following table will show the standing of the various items composing the current account, the sum total of which comprise the net deficits of $613 and $1138 million.

TABLE II (2)

Net Balances of Current Transactions with the United States in 1946 and 1947
(Millions of Canadian dollars)

	1946	1947
Merchandise[1]	-430	-892
Non-monetary gold	+ 96	+99
Tourist Traffic	+ 86	+83
Interest and Dividends	-209	-238
Freight and Shipping	- 68	-115
All other current items	- 88	-75
Balance on Current Account	-613	-1138

1. including receipts of War Supplies Ltd., amounting to $55 million in 1946 and $13 million in 1947.

The deficit of $613 million in 1946 was larger than any previous year in Canadian history. It was covered only to the extent of $237 million by

(2) Ibid., p.15.

current receipts of convertible exchange from the United Kingdom and other overseas countries; net receipts from all other capital transactions supplied \$103 million; and the balance of the deficit, \$263 million, was drawn from official hard currency reserves, leaving the Canadian holdings of gold and United States dollars at the end of 1946, close to \$1245 million.

The size of this deficit of \$613 million took on added gravity since the normal pre-war sources of convertible exchange from trade with overseas countries had been reduced because of the general dollar shortage and limited productivity overseas. The sudden re-emergence of the large deficit on current account with the United States resulted from divergent trends in receipts and expenditures; current receipts dropped by \$145 million while current expenditures increased by \$468 million. The principal decline in receipts was occasioned by a reduction in the sale of munitions and grain, whereas the sharp gain in expenditures was attributable to many causes. The volume of Canadian imports has always been closely related to the level of national income and domestic prosperity, and therefore, in 1946, with a total national income close to the wartime peak and with the enforced restraint of wartime largely eliminated, consumer spending reached a record height. Moreover, the increased sales of domestically produced goods - (many of which have an import content)- resulted in increased requirements for fuel, producers' materials, and capital equipment from the United States. Industries also added their weight to the pressure for imported goods, mainly because of subnormal inventory accumulation and capital formation deferred by the war. Furthermore, prosperity in the agricultural sector, due in part to the subsidizing of products for export, resulted in increased import demand with respect to farm machinery.

This high level of demand for imported goods was little affected by the price rise occurring throughout the year, availability being the main consideration. It must be noted however, that these price increases were partially offset by the return of the Canadian dollar to parity with the

United States dollar in 1946, - such action tending to improve the relative position of the United States goods in the Canadian market. In any event, as a direct result of the conditions noted above, the total value of imports in 1946 amounted to approximately $1900 million, about triple the total for 1938, of which 3/4 came from the United States.

In 1947 the disequilibrium in Canada's current account with the United States was further distorted, producing a record current account deficit of $1138 million. Net receipts of convertible exchange from the credit balance with overseas countries amounting to $1185 million supplied only $638 million towards covering the deficit. In addition to the balance of the deficit ($500 million) there were net capital outflows of $163 million to the United States dollar area, as well as Canada's gold subscription to the International Monetary Fund in the amount of $74 million. These then were the factors contributing to the reduction in official liquid reserves during 1947 of $743 million. Canada's reserves as a result amounted to approximately $502 million at the end of 1947 compared with approximately $1245 million at the end of 1946.

The large deficit of $1138 million was occasioned by differing rates of increase in receipts and expenditures; current receipts by Canada from the United States rose by less than 9 percent compared with an increase of more than 30 percent in current expenditures. Apart from the high level of economic activity and consequent high level of imports, there were certain other factors of a general nature accounting for the unprecedented amounts spent by Canadians on imports from the United States in 1947. One of these, the inability to obtain normal supplies from other countries, has already been referred to. In 1947 Canada had to obtain 77 percent of her total imports from the United States, compared with 61 percent in pre-war years.

Another factor was the rise in prices in the United States; while no precise measure is available, it is believed that as much as half of the increase of approximately $570 million in the value of imports from the United States could be attributed to this cause.(3) Canadian export prices also rose but since her exports to the United States are much less than her imports, even a uniform rise in the prices of export and import goods adds to her exchange deficit.

3. Canada's austerity program.

During 1947 then, Canadian imports from the United States exceeded Canadian exports to that country by a ratio of two dollars to one.(4) As a direct result her official reserves of gold and United States dollars were being depleted at the rate of $70 million per month,(5) a rate of decline which, if allowed to continue unchecked, would most surely have exhausted the then remaining reserves. Drastic action had to be taken to prevent international insolvency.

On November 17, 1947, the Minister of Finance, the Honourable Douglas Abbott, announced measures designed to alter the flow of goods and services, and at least arrest the rapid decline in exchange reserves, if not reverse the trend. The Minister of Finance issued instructions to the Foreign Exchange Control Board pursuant to the Foreign Exchange Control Act to implement a drastic and comprehensive Foreign Exchange Control program designed both to conserve the expenditure of United States dollars

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(3). Balance of International Payments, Preliminary Statement, 1947, Department of Trade and Commerce, Dominion Bureau of Statistics, Balance of Payments Section, Ottawa, 1948, p.10.

(4). Foreign Trade, Department of Trade and Commerce, Foreign Trade Service, Vol.111, no.72, Ottawa, May 15, 1948 issue, p.933.

(5). Honourable Douglas Abbott, Minister of Finance, speaking on Emergency Exchange Conservation in the House of Commons, June 25, 1948. Hansard, vol. 87, no.115, Ottawa, King's Printer and Controller of Stationery, 1948, p.5838.

and to provide for increased receipts of dollars, said program to be effective immediately. The measures introduced were as follows:

(1). A system of embargoes and quotas imposed on certain classes of imports which apply to all countries:

Import embargoes were applied to a wide variety of consumer goods of a non-essential character, and also applied to a number of items which are important but are produced in Canada in substantial quantities.

- Import quotas were applied to certain prepared and fresh foods, certain textiles, leather and rubber goods, restricting them to a certain percentage (200-400%) of the average value imported during 1937-39.

(2). Excise Taxes:

An excise tax of 25% was placed on most consumer durables, and taxes on others were raised. These taxes were designed to curtail consumption and therefore reduce importation of parts from the United States essential to their manufacture in Canada.

(3). Travel Restrictions:

The amount of United States funds available for travel was limited to $150 per person annually, with exceptions for business, health or educational purposes.

(4). Loan from the United States:

Arrangements were made with the Export-Import Bank in Washington for a credit of $300 million which would be available for use until December 31, 1948.

(5). Federal Assistance to Gold Mines:

A subsidy of half the difference between $18 and current production costs per ounce was to be paid on all gold produced in excess of two-thirds of the output in the year ended June 30, 1947.

(6). Control of Capital Goods Imports:

As capital equipment represented a large proportion of imports from the United States, a schedule of such items was prepared under which imports would be allowed after March 1, 1948 on a permit basis, and then only by ministerial discretion.

It was estimated that at the current level of trade, the embargoes and quotas would reduce imports from dollar areas by about $300 million a year, while tourist expenditures would be down about $40 million. There was however, no indication of how many dollars would be saved through excise taxes, or how much additional gold would be mined under the subsidization plan. The same condition existed in respect to capital goods imports; although it was estimated that total imports of these goods amounted to $445 million in 1947, there was no indication of the proportion of this total which would be excluded by the newly imposed restrictions.

4. Results of Canada's austerity program.

As a result of these changes in the flow of goods and services, not only was the rapid decline in exchange reserves arrested but the trend was actually reversed. By December 17, 1947, the level of liquid reserves had dropped to $61 million which proved to be the low point in the depletion, and from that date on, an encouraging improvement has been indicated insomuch that on June 23, 1948 the level had risen to $602 million - the result of the working of economic forces-, plus $140 million as a result of drawings upon the Export-Import Bank loan.(6) More recent figures indicate that at December 31, 1948 the official holdings had risen to $998 million made up of $550 million in American dollars and the remainder in gold.(7) Of this total $150 million was raised on the long-term loan from the United States

(6). ibid., p.5838.

(7). Honourable Douglas Abbott, Minister of Finance, address before the Edmonton Chamber of Commerce, January 5, 1949, reported in the Ottawa Evening Journal, 64th. year, no.22. issue of January 6,1949,p.30,col.1-2.

rather than through dollar conservation measures. One reason for the increase in total holdings it would appear, is expansion of exports to the United States; another reason is, contraction of imports from the United States; and the last reason, claimed to be the most important, is the 'off shore' purchases by the United States under the Marshall Plan which have provided a steady and sizeable flow of United States dollars into Canada.

It would appear therefore that the initial threat to Canada's gold and dollar reserves has been successfully met and that the tide has turned in her favour. As a matter of fact, the Dominion Bureau of Statistics reported that in September 1948, Canada's long standing adverse balance of trade with the United States had finally cracked under the pressure of the Canadian Austerity Program, and that for the first time since August 1945 she had achieved a favourable balance of trade by selling more to the Americans than she imported from them. The net result was a favourable balance for Canada in the amount of $11.4 million, the first substantial peacetime credit balance since the middle 1930's.(8)

However, it is misleading to exaggerate the extent of her improved position. Canada cannot look forward to an import restriction program and Marshall plan spending as a positive or final solution to her difficulties. The government has made relaxations of the restrictions imposed in 1947 and must continue to make further relaxations as her exchange position improves. The austerity excise tax of 25 percent was eliminated on certain articles during 1948, and on other items reduced to the 10 percent level in effect prior to the institution of the dollar conservation program; in 1949, further tax reductions were authorized, with the excise tax on additional commodities being repealed and on others reduced to the 10 percent level. However,

(8). Monthly Summary of Foreign Trade. Bulletin 10-4110, September, 1948, Department of Trade and Commerce, Dominion Bureau of Statistics, External Trade Section, Ottawa, 1948, p.3.

import restrictions, the main factor in reducing Canadian supplies of many types of food and service articles, still remain on many commodities. The reduction of these consumer supplies has served to reduce the real wage level of the Canadian people, and if continued for any length of time would serve also to reduce the standards of living of her people. For example, the dollar saving plan has stopped the flow into Canada of American peaches, cantaloupes, watermelons, pears, plums, cherries and tomatoes which are usually on Canadian markets in June or July. Although some of these foods can be and are domestically grown, the quantity supplied may be seriously reduced as also the period available. Furthermore the price of these domestically grown foods is usually held down by competition from imported foods, viz.: in July 1948, tomatoes retailed at a price of 45 to 49 cents a pound instead of the usual pre-austerity price of 25 to 29 cents a pound for the same period. As a result of this artificial scarcity, therefore, the cost of living has been adversely affected; moreover, this same phenomenon is evident also in other facets of Canadian life and effort.

The sacrifices entailed in the restriction of Canadian consumption levels and in the readjustments required of some Canadian producers, can be justified only as a temporary stop-gap. The breathing-spell so obtained should be used to effect a thorough revision of Canada's economy in order to permanently reduce her external vulnerability through a greater measure of stability in her own domestic economy, and as far as possible, used to aid in the restoration of a multilateral trading system on a sound financial and economic basis.

CHAPTER II

FUNDAMENTAL CAUSE OF EXCHANGE PROBLEM

In order to realize the magnitude and scope of Canada's Balance of Payments difficulties, it will be necessary to consider the fundamental cause or underlying problem creating the world-wide shortage of United States dollars which has existed for the past three decades.

A world-wide shortage of United States dollars would indicate that a situation had arisen wherein the society of nations as a whole had a greater sum of payments to make to the United States than currency with which to do it. Such an imbalance necessarily creates difficulties. Foreign countries, considered as a group, cannot make dollar payments to the United States in excess of the dollar payments which the United States concurrently makes to them. This statement must be modified however inasmuch as transactions on external account between the United States and foreign countries can be equilibrated by means of depleting reserves of gold and United States dollars, by borrowing in the United States, by the sale of long-term investments, or by the sale of newly mined gold. The procurement of foreign exchange by any of the first three methods cannot continue indefinitely because they impair a country's reserve position either directly or indirectly. As for the latter method, such action is feasible only as long as a country's gold resources warrant economic exploitation. These remedies are effective then only if the imbalance is of a temporary nature; but, if such an imbalance is recurring or consistent, as has been the case in transactions between the United States and other countries during the last thirty years, then new methods of payment would have to be devised, or, drastic action must be taken to equilibrate international transactions on external account. Such action could take the form of import quotas or embargoes, tariff barriers, manipulation of foreign exchange rates, foreign exchange control, etc.. As the result of such action the level of international transactions is definitely decreased and those policies work to the detriment not only of the nation employing such practices, but also to the detriment of the United States, and all members of the society of nations.

This then has been the underlying problem - a universal shortage of United States dollars during the last thirty years, and the struggle to circumvent the resultant difficulties, with solutions pursued mainly at the expense of international specialization and division of labour.

1. Universal shortage of United States dollars.

To comprehend when the shortage of United States dollars first appeared and its persistence, it will be necessary to trace the activities and policies of the United States in the world economy from a period as far back as 1914-1918.

During World War I, largely as a result of loans floated for the account of the British and French Governments and the liquidation of foreign holdings of American securities, the international investment position of the United States underwent a swift change.

> A net debtor status of approximately $3700 Million in 1914 was transformed into a net creditor status, excluding governmental debts, of the same amount by the end of 1919. (1)

(1). United States Department of Commerce, Bureau of Foreign and Domestic Commerce, <u>The United States in the World Economy, Economic</u> Series no.23, Washington, United State's Government Printing Office, 1943, p.122.

Having thus been established as a creditor nation, the United States undertook a foreign economic policy designed to bolster and maintain that position. She predicated her policy upon the manifest impossibility that she might continue to have it two ways, - a large volume of dollar receipts against a small volume of dollar payments. The most flagrant example of her mercantilistic policy was the passing of two major tariff laws, 1922 and 1930, in the face of continued efforts to collect war debts and promote exports, settlement of which, in the final analysis, could be achieved only by the acceptance of an excess of imports over exports.

The trend of her relations on external account is traced in charts following, which illustrate the total streams of United States dollars supplied by the United States and used by other countries during the 21 years from the end of the First World War to the beginning of the Second.

The most striking feature to be noted in Chart I is the wide divergence in the trends, especially in the three periods of heavy decline in the supply of United States dollars, notably 1921, 1930-32 and 1938. These periods correspond to years of recession and depression in the business activity of the United States, and are all characterized by the severe drain on the monetary reserves of other countries, and by pressure on the exchange rates of currencies other than United States.

A sharp recession in business activity in 1920 brought a rapid decline in imports. As pressure emanated from the United States through the fall in business activity and prices, decline in imports, and cessation of United States government lending to its former allies;(3) other countries were able to absorb part of the strain by permitting their exchange rates to depreciate, thereby discouraging imports.

(3). "In 1919, the United States Government disbursed abroad almost $3000 million largely in the form of loans and gifts to foreign governments. Additional advances were made in 1920, although on a much diminished scale, and still smaller amounts in 1921 and 1922." ibid, p.84.

CHART I (2)

WORLD SUPPLY AND USE OF DOLLARS

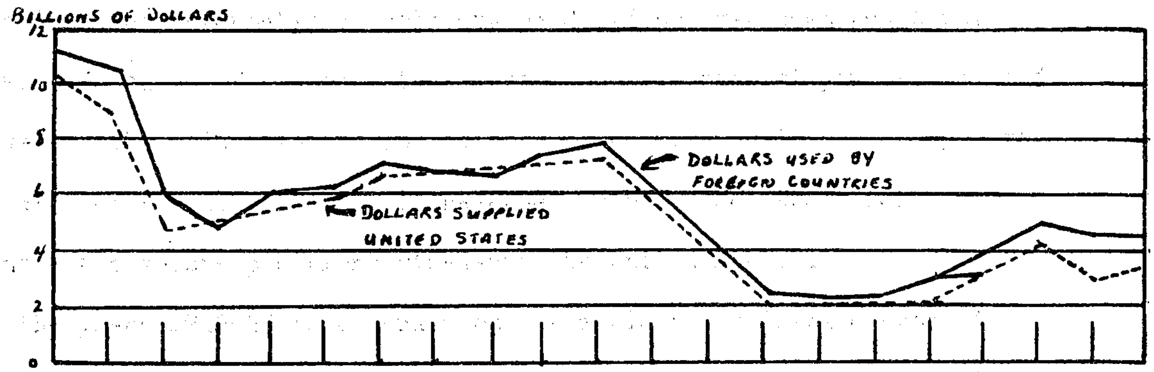


CHART II (2)

DOLLARS SUPPLIED BY UNITED STATES ACCORDING TO MAIN CATEGORIES

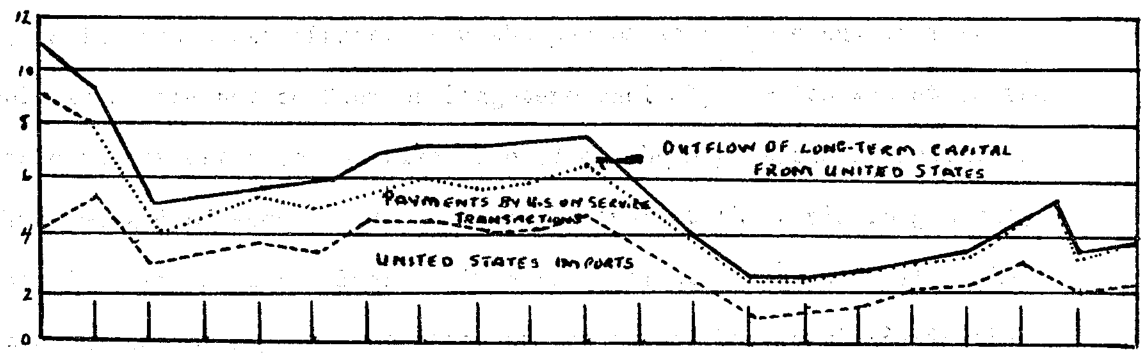
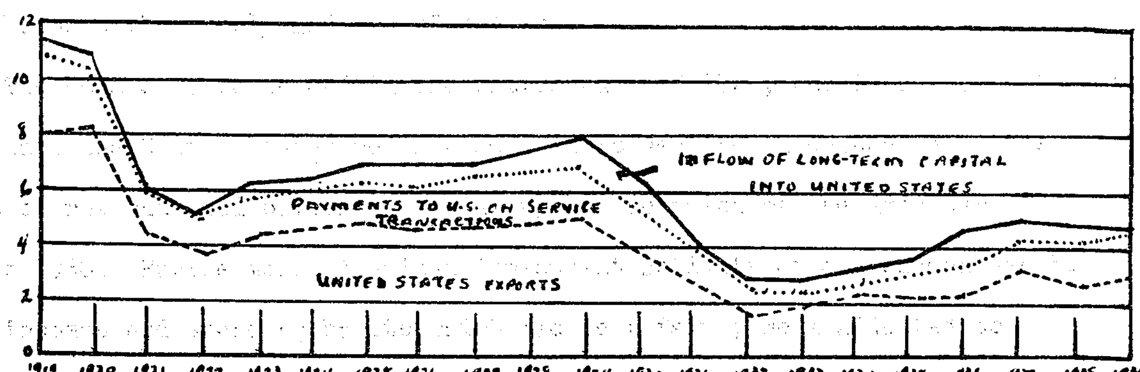


CHART III (2)

DOLLARS USED BY FOREIGN COUNTRIES ACCORDING TO MAIN CATEGORIES



Amount of dollars supplied foreign countries through payments by the United States and amount of dollars used by foreign countries through payments to United States, 1919-39 (excludes gold and short-term capital movements).

(2). Id., ibid., p.viii.

and encouraging exports to some extent. Depreciation was possible because the pegged exchange rates maintained among the Allies during the war had been abandoned and the international gold standard had not yet been restored. Furthermore, because of the fact that most countries had not yet recommitted themselves to the gold standard and defence of reserve positions, they were able to dip heavily into their gold reserves to help meet their deficits in balance of payments positions vis-à-vis the United States.

The years 1922-29 were marked on the whole by world-wide economic expansion and rising incomes, with a corresponding increase in international transactions. In regard to the United States, however, transactions on current account, still registered consistently an excess of receipts over payments. Said excess was offset, over the period as a whole and in most years, chiefly by the net outflow of long-term capital,(4) which was attracted by the ample investment opportunities offered by the huge tasks of reconstruction in Europe, and of economic development throughout the world in general, that remained after the war. Such a situation indicates a structural weakness in the balance of payments position of the United States vis-à-vis the remainder of the world, - a dependence upon the behaviour of a highly unstable factor, outflow of long-term capital, for the maintenance of a satisfactory balance between the supply and use of dollars.

The boom came to an end in the latter part of 1929, and in response thereto imports into the United States registered a sharp decline, accentuated by the collapse of raw material prices and by an upward revision of the American tariff in 1930. Furthermore, American investment activity died a sudden death. Foreign incomes and spending habits which had been fairly well adjusted to

(4). "In the period 1919-30 the United States provided $11600 million to foreigners by way of subscriptions to new foreign issues and direct investments abroad, an annual average of about $965 million." ibid,p.89.

the 1927-29 level of United States dollar supply, had to undergo vast and drastic changes because of the vertiginous decline in the supply of dollars after 1929,(5) and the continuing low level of dollars supplied in later years. The principal measures of adjustment employed by the various countries were as follows:

1. Abandonment of gold parities and depreciation of foreign currencies with respect to the United States dollar; although several of the primary producing countries (Australia and Argentina) quickly abandoned the gold standard, most nations gave it up reluctantly and only under the inexorable pressure of events, so that the initial endeavours to defend their exchange parities and reserve positions let the task of readjustment in their external demands fall full force upon their internal economic life.

2. General tariff increases aimed at curtailing total imports and promoting domestic production; this practically universal upping of import duties was marked particularly by the adoption of a heavy tariff structure by the United Kingdom in 1932.

3. Preferential tariff and commercial arrangements designed to foster trade among the participants and to divert trade from other sources of supply.

4. Direct trade and exchange control through quotas and licensing requirements for the purpose of forcing trade along selected channels and restricting the use of foreign exchange to the available supply. In some countries, notably

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(5). "The fall in purchases of foreign goods and services and the virtual complete cessation of new investment abroad, resulted in an extraordinarily rapid and severe shrinkage in the supply of dollars currently made available to foreign countries. The amount of dollars paid out or transferred in this manner dropped from a level of $7,400 million for the three years 1927 to 1929, to a mere $2,400 million in 1932 and 1933, a reduction of 68 per cent over a span of only three years." ibid, p. 173.

Germany, these methods of adjustment eventually became instruments for violent political and economic nationalism, being carried far beyond the requirements for external adjustment.

Foreign purchases of American goods and services during 1934-39 were larger than similar purchases by the United States from other countries even though the imports of foreign countries dropped far below the level of their internal activity. This latter spread may be taken as a rough measure of the growing self-sufficiency and economic nationalism of foreign countries. The only particularly wide divergence in United States receipts and expenditures on current account during this period 1934-29, was occasioned by the business recession of 1937-38. The decline in the dollar supply or import side was sharp, but United States exports only slightly fell off. As a result, the gap between the amount of dollars supplied and the amount used widened appreciably in 1938 and 1939, and occasioned further drains on foreign gold reserves to meet the deficit.

The foregoing then indicates the underlying reason for the consistent world-wide dollar shortage: - the reluctance of the United States to accept imports at all times, a reluctance especially marked in times of domestic recession and depression; the misbehaviour of American investment in foreign countries, viz.: the near equilibrium in the supply and use of dollars prior to 1929 as contrasted with the continuing disequilibrium after that date; the improper functioning of the American economy, viz.: the recessions and depressions of 1921, 1930-32 and 1938. It would appear that the high tariff policy followed by the United States for many decades has served, as indeed has been its purpose, to exclude or severely restrict a potentially large volume of imports, how large it is impossible to say. Such restrictive measures preclude a high level of international transactions, albeit a high level of transactions is not necessary to the achievement of economic well-being either in the United States or abroad. The record of the 'thirties' demonstrated that foreign countries, save for those narrowly dependent on the American market, could, after initial disturbances, adapt themselves to a relatively low level of exchange with the United States and yet attain a substantial internal prosperity and promote their trade with one another; and, in time, the United States could also make the necessary adjustment in its export trade and domestic economy, although with difficulties exemplified by their agricultural policies of recent pre-war years. If the international economy should be reconstructed on such a basis in these formative years following the Second World War, whether due to lack of foresight, suspicion, prejudice or selfishness, it will unquestionably be even less progressive and more subject to commercial restrictions and discriminations than that structure of trade which existed in the 1930's. Moreover, such a trade structure is not altogether impossible despite the avowed intentions of the United States in her Proposals for Expansion of World Trade and Employment of December 6, 1945.

2. Shortage of United States dollars - the Canadian situation.

So much then for the general situation respecting the universal shortage of United States dollars that has existed in the past. With more pertinence to the problem under discussion, the effect of United States policies on the Canadian economy needs now be reviewed.

Economically Canada is largely a disconnected strip of territory along the American boundary. Though Canada is about 1500 miles from north to south, its settled area is a strip averaging less than 200 miles in width immediately north of the United States. More than 9 out of 10 Canadians live within this 200 mile strip and more than one-half the total population within 100 miles of the boundary. As a result of this proximity to the United States there is interlocking of industries, intensified exports to the United States and imports from the United States, consumer demand patterned after American demand, and obvious difficulties hindering her economic independence. Canada's dependence and economic domination are reflected in the following table.

TABLE III (6)

Canada's net Current Account Balances with the United States 1926-1939
(Annual averages in millions of dollars)

	excluding gold	including gold
1926-28	-310	-275
1929-31	-375	-330
1932-34	-210	-120
1935-37	-170	- 35
1938-39	-305	-130

Canada then is heavily dependent on the American market, and does not fall into the category of those countries that can adjust themselves to a low level of exchange with the United States and still maintain a reasonably high level of living standards. In her case and the case of all other countries narrowly dependent on the United States market, a much more serious situation does exist.

The American tariff barrier as increased and broadened by the passing of two major tariff laws during the inter-war period, was prohibitive for practically all but imports of primary products. Those nations therefore who must export to the United States are restricted to this field which is

(6). Foreign Exchange Control Board. Report to the Minister of Finance, Ottawa, 1946, p.6.

subject to wide fluctuations in world prices. Inasmuch as the United States is a leading importer of primary products, it is not surprising that variations in her import requirements, as directly determined by the trend in her real economic activity, have impinged very strongly on the prices of primary goods in general and of those goods for which the United States is the principal market, in particular. In other words, changes in economic activity in the United States have tended to exert a double and direct influence on the value of primary goods exported to that country, affecting both quantities and prices in the same direction. As aforestated, such a situation, in respect to countries not narrowly dependent on the American market, may be adjusted by a curtailment of transactions with the United States; but Canada and those countries that are dependent, must accept the full measure of economic fluctuations that accompanies the highest standard of living in the world, without as high a standard of living to absorb it. When United States business activity undergoes a decline, there is a concomitant fall in the volume and value of those primary products imported: consequent thereto, Canadian export activity falls off considerably and the Canadian economy suffers from a recession which has originated in the United States. Moreover inasmuch as the changes in Canadian exports to the United States do not coincide in point of time or magnitude with the changes in imports from that country, there is then a tendency to rapid and large fluctuations in the net balance of Canadian Trade, a situation which places a severe strain on her economy and which, at any time, is liable to develop into a financial crisis such as she is now experiencing.

The functioning of the American economy as a whole therefore, presents the most baffling problem to any solution of the universal shortage of dollars.

If a solution to this problem may be found, with the maintenance of a high and reasonably stable level of economic activity as an end thereof, the difficulties encountered in the past with respect to the universal shortage of United States dollars will be greatly eradicated. Such a solution is of primary importance to those countries narrowly dependent on the American market. Furthermore, commercial and investment policies which are susceptible to intelligent determination should no longer constitute disturbing elements in the flow of United States dollars as in the past. The International Bank for Reconstruction and Development should aid immeasurably in promoting a sound investment structure. In regard to United States trade restrictions as perpetrated through tariff increases, it is to be noted, that the trend has now been reversed. The Reciprocal Trade Agreements of 1934, subsequently extended, and the General Agreement on Tariffs and Trade of 1947 have brought about a gradual reduction in tariff rates. However, reductions have been cautiously negotiated with a view to minimizing the effects on domestic production, and thus far there is no clear indication of the effects or benefits from such reduction, in increasing the supply of United States dollars made available to the world.

CHAPTER III

IMMEDIATE CAUSE OF PROBLEM

The foregoing has dealt with the underlying difficulties creating the over-all shortage of United States dollars. Such an over-all shortage does not imply, however, that each and every country found themselves faced with a chronic deficiency of that currency. By virtue of a system of multilateral settlements, an integral part of the network of international commerce which had grown up over an extended period, it was possible for individual countries to have a considerable disequilibrium in current account transactions with the United States without any special problems of settlement arising; a surplus of one of the major foreign currencies was used to offset the deficiency.

The United Kingdom and Germany played particularly important roles in this economic scheme. The former, as the single greatest trading nation, was the centre of a complex network of financial and trading relations and was a heavy net importer from the European Continent as well as from countries like Canada. On the continent itself, Germany, forming what might be called the heavy industrial backbone of Western Europe and producing export surpluses of machinery and highly manufactured goods, provided in return, markets for many of the products of other Western European countries. These continental countries as well as countries like Canada, South Africa, Australia and New Zealand, obtained by means of export surpluses to Britain, the United States dollars with which to pay for their import surpluses from the United States.

The dollars that Britain disbursed in these countries were earned triangularly via sales to the United States or, equally important, quadrilaterally by way of the Carribean Sea, South America or the Far East; - such was the delicate mechanism of multilateral payments.

Canada heavily depended on this network of commerce to supply the United States dollars that her exports of goods and services to the United States did not procure for her. To fully comprehend this dependence it will be necessary to trace her pattern of trade, with respect to the United States in particular, and the world in general.

1. Canada's pattern of trade.

British interests which had completely dominated Canadian Trade for the first 60 years of British rule, began to make concessions under American pressure in 1822. By 1860, when the last vestige of preference to colonial products had disappeared from the British tariff, Canadian trade relations with the United States had become more and more intensified, insomuch that Canada began to seek a reciprocal tariff or reciprocity treaty with the United States. From that time on, both the United Kingdom and the United States have played a dominant role in Canadian trade. During the next 30 years the volume of Canadian trade with the United Kingdom reflected a slow but gradual increase in transactions albeit radical changes were beginning to appear in the direction and composition of Canadian trade. In 1883, the rapidly expanding United States replaced the United Kingdom as the principal source of Canadian imports, and by 1896 over half of the Canadian imports were of United States origin. Since that time United States supremacy in the Canadian market has been maintained. However, although the United Kingdom share of Canadian import trade diminished, her purchases of Canadian exports rapidly increased, quadrupling between 1886 and 1906. The following table will show direction of Canadian trade over the years 1886-1948.

TABLE IV (1)

Canadian Trade with British Empire and Foreign Countries

Imports Year	United Kingdom Value	%	United States Value	%	Other Empire Value	%	Other Foreign Value	%
1886	$39.0M	40.7	$42.8M	44.6	$ 2.4M	2.5	$11.8M	12.2
1906	69.2	24.4	169.3	59.6	14.6	5.1	30.7	10.9
1916	77.4	15.2	370.9	73.	27.8	5.5	32.1	6.3
1921	214.	17.3	856.2	69.	52.	4.2	118.	9.5
1929	194.8	15.0	893.6	68.8	62.3	4.8	148.3	11.4
1933	97.9	24.4	217.3	54.2	34.8	8.7	51.2	12.7
1939	114.2	15.2	496.9	66.1	74.9	10.0	65.3	8.7
1943	135.0	7.7	1,423.7	82.1	103.7	6.0	72.8	4.2
1946	201.4	10.4	1,405.3	72.9	139.1	7.2	181.5	9.4
1947	189.5	7.3	1,976.4	76.7	164.9	6.4	243.1	12.2
1948	299.6	11.3	1,809.5	68.5	204.6	7.3	323.4	
Exports								
1886	$38.7M	47.2	$34.3M	44.1	$ 3.3M	4.2	$ 3.5M	4.5
1906	127.5	54.2	83.5	35.5	11.0	4.6	13.5	5.7
1916	451.9	60.9	201.1	27.1	30.7	4.2	58.0	7.8
1921	312.8	26.3	542.3	45.6	90.6	7.6	243.4	20.5
1929	290.3	25.2	492.7	42.8	105.0	9.1	264.4	22.9
1933	210.7	39.8	168.2	31.8	44.5	8.4	106.0	20.0
1939	328.1	25.5	380.4	41.1	102.7	11.1	113.7	12.3
1943	1032.6	34.8	1149.2	38.7	369.0	12.4	420.6	14.2
1946	597.5	25.8	887.9	38.4	307.2	13.3	519.6	22.4
1947	775.8	27.9	1040.8	37.5	392.7	14.1	565.6	20.3
1948	699.4	22.7	1510.5	49.1	333.0	10.8	532.9	17.3

Figures and percentages for the years 1886-1946 are taken from Canada Year Book (1947); figures for 1947 and 1948 are taken from Foreign Trade while percentages are the author's calculations.

From the foregoing then, it can be readily seen that Canada's pattern of trade has had very definite trends. The geographical distribution of transactions has displayed very pronounced characteristics indicating a concentration of

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(1). Department of Trade and Commerce, Dominion Bureau of Statistics, Canada Year Book (1947), Ottawa, King's Printer and Controller of Stationery, 1947, p.889; Foreign Trade, Department of Trade and Commerce, Foreign Trade Service, Vol.V, no.112, Ottawa, issue of February 19, 1949, p.368; Foreign Trade, Department of Trade and Commerce, Foreign Trade Service, Vol.V, no.409, Ottawa, issue of January 29, 1949, p.213.

dealings with the United Kingdom and United States. This situation is reflected in her balance of payments statements wherein credit balances on current account have characterized the sum of the transactions between Canada and the United Kingdom, and chronic debit balances have been customary in the account with the United States.

Canada's sterling income, however, was freely convertible before the war into United States dollars or other currencies for which Canadian demand exceeded the Canadian supply. As a result therefore, she could easily cover her deficiency with the United States by applying the surplus which she obtained by an excess of exports to the United Kingdom and Europe. Triangular settlements, such as this arising from the unbalanced state of the Canadian account with the United Kingdom and United States, were an integral part of the pre-war system of multilateral settlements.

2. Disruption of the multilateral settlements system.

The Second World War interrupted the operation of this system of multilateral settlements by creating conditions under which sterling and other currencies were no longer convertible into United States dollars. The first and foremost cause was the grave distortion and destruction of pre-war production structures in the ravaged countries. They had no surplus for export, being forced to produce for their own reconstruction programs, yet, they found it necessary to continue importing vital materials from the Western Hemisphere. As a result therefore they were faced with deficiencies on current account which necessitated a drain on their gold and dollar reserves. Furthermore, in the Middle East, Burma, India, as also in the Netherlands, East Indies and French Indo-China, the while man was being relieved of his burden. As these edges of Empire were rounded off, the dollar earning investments in rubber, tin, jute, copra, sugar, railroads and shipping, passed to local hands or were rubbed out. Therefore, because they were not and could not sustain exports to the United States, because their colonial sources of supply for United States dollars were dwindling, because they were faced with substantially augmented demands for vital products from the Western Hemisphere, most ravaged countries were forced to suspend the convertibility of their currencies in order to relieve, at least in part, the drain on their gold and dollar reserves. The pre-war system of multilateral settlements had broken down.

The United States, recognizing that the United Kingdom was a mainspring of the delicate mechanism of multilateral payments, made an attempt to get world trade moving on a pre-war basis by extending a credit of $3.75 billion to that country in July 1946. This loan was intended, in conjunction with the Canadian loan in 1946 of $1.25 billion, to help the United Kingdom bridge the gap between exports and imports during the interim period of recovery. To this loan was attached a rider that Britain should carry out full convertibility by July 15, 1947. In keeping with said condition Britain gradually extended preparations for convertibility. Some idea of the way in which she funneled out dollars to other countries can be seen from figures of United Kingdom dollar expenditure for the first half of 1947. Britain's own trading deficit with the United States was $704 million in this period and her expenditure in other parts of the Western Hemisphere was $472 million(she paid automatically in dollars for all purchases in dollar countries, such territory including North America and all Central and South America except Argentina, Brazil and Uruguay). In addition, she spent $116 million in dollar purchases for Germany, made $272 million available for purchases by other Sterling Area countries; with certain countries Britain had a system of 'transferable accounts' which meant that though payment to them by Britain was not in dollars they could change any sterling surplus they had into dollars.[2]

On July 15, 1947 full convertibility of sterling was re-instated. Immediately thereafter, drawings on Britain's dollar reserves mounted disastrously. In July she was obliged to draw $700 million on the credit; in the five days August 11-15, drawings amounted to $176 million; in the first two days of the following week, August 18-19, they amounted to $66 million. In the face of such colossal depletion of reserves, Mr. H. Dalton, the chancellor of the Exchequer, was forced to announce on August 20, 1947, that the United Kingdom Government had decided to suspend sterling convertibility for the time being, such measures being taken after consultation with the United States and Canadian governments. At that date, only $400 million of the United States credit was left. However Britain still maintained her basic gold and dollar reserves (2.4 billion) which were to serve not only herself but also all Sterling Area countries and which were considered inadequate, even for essential purposes, for anything like an extended period.

The cessation of sterling convertibility immediately relieved the tension for Britain, but it undoubtedly and inevitable intensified the dollar shortage for the countries that were drawing dollars from her. In regard to Canada the situation became more serious daily, for, as detailed in Chapter I, the drain on Canada's gold and dollar reserves had reached an unprecedented rate, and the fact that she could no longer convert United Kingdom currency into United States currency and thereby replenish her reserves to some degree, added greatly to her difficulties. The level of her reserves was lowered more rapidly without the alleviating factor of supply from the

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(2). Economic Record, No.9, September 1947, United Kingdom Information Office, Ottawa, 1947, p.1-2.

United Kingdom, and finally, Canada was faced with a financial emergency in respect of payments in United States currency which necessitated drastic action in order to prevent international insolvency.

CHAPTER IV

FACTORS AGGRAVATING OR MODERATING THE CANADIAN PROBLEM

The principal solutions to the wide disequilibrium in the Canadian current account with the United Kingdom since 1939, have been of a financial character. Arrangements were made between the two governments for increasing the supply of Canadian dollars available to the sterling area, and for the direction of this supply into official channels. In the early years of the war these methods were mainly of a capital type involving repatriation of investments and accumulation of sterling, whereas later in the war, when the disequilibrium widened to its peak, a billion dollar gift and Mutual Aid to the United Kingdom were the chief methods of financing the British shortage of Canadian dollars.

1. Canadian loans to Europe.

This then has been one facet of Canadian prosperity. It is undeniably true that since 1939, Canada has depended on public spending, either for war purposes, or through credits offered to her customers, to maintain a high level of economic activity. Normal trade channels did not exist during the war and will continue to be non-existent as long as Europe and Asia cannot sell as much as they need to buy. Canada's economic policies of prosperity through gifts and loans therefore, although artificial in the sense that they are borne by the Canadian taxpayer, were necessary if her customers were to purchase her goods and if she was to avoid widespread unemployment. On the one hand, her motivations were selfish. She sought to secure her farmers, miners, lumbermen and manufacturers against the great post-war slump that was assumed to be on its way. Furthermore she had a vital interest in the old multilateral settlements system, and for that reason she extended sizeable loans to Britain and Western European countries, thus carrying out a European Recovery Program of her own. On the other hand, she was morally obligated to help feed and rebuild the world, for in 1945 Canada had the second strongest economy in the world, second only to the United States. Moreover sentiment directed that being a Dominion and later a voluntary member of the Commonwealth, she should do everything in her power to help Britain recover.

No criticism may be levelled at the considerations motivating Canada's economic policy, but however, the scope and extent of her generosity is open to possible discommendation. In the immediate post-war months, the Canadian government evidently overestimated Europe's rate of recovery and her own capacity to help the process along. Because of this probable miscalculation, Canada undertook a post-war aid program which would appear to be compatible neither with her standard of living and level of national income nor with her holdings of official liquid reserves. According to statistics released by the United Nations Organization, figures show that during the period May 1945 to June 1948, the United States gave the greatest amount of financial assistance to other countries ($16.16 billion), with Britain second ($2.45 billion) and Canada third ($1.89 billion).(1) With regard to Britain however it is to be noted that she in turn received

(1). United Nations Release, as reported by the British United Press in the Ottawa Evening Journal, 63rd. year, no.214, issue of August 23, 1948, p.23, col.5-6.

government and private financial aid during this period to the extent of $6.67 billion, and in a similar manner Canada received aid to the extent of $487 million. If Canada's net contribution was multiplied by 18 to bring it to a comparable basis with the United States, in terms of national income, it would readily be seen that Canada's European Aid Program more than surpassed the United States contribution. Furthermore, added to these facts and figures is the factor which nobody can seem to pin down to any particular amount, although officials say it certainly runs into many millions of dollars. It is the difference between the price that Western Canadian farmers received from Britain for the wheat contract and the price they could have obtained in the world market.

The credits that Canada has extended in her post-war aid program therefore, have, on a comparable basis, more than overshadowed anything that the United States has offered. Yet United States economists have discussed back and forth the possible detrimental effects on United States standards of living. What then can be said of Canada, a nation which embarked on a much more generous course of action, what of her standards of living? One conclusion that may be stated is that, in the immediate present such action has probably resulted in curtailment of consumer consumption as well as in a higher cost of living. As for the long-term effects, conclusions may be drawn only after repayment in the form of a return flow of goods and services has been started.

With more pertinence to the problem at hand, however, it must be noted that this course of action had led to other difficulties. Canada has lent so much to Britain and other countries without getting any return, that she has run short of the wherewithat to pay for her purchases from the United States. The shipment of goods against credits extended has tended to deplete her official reserves because of the United States dollar content in some of the goods exported. This was one of the factors along with several others, which forced Canada, in April 1947, to freeze the remaining $240 million of the $1.25 billion 1946 loan to Britain. She was forced to restrict her shipments to Britain against credits in order to avoid a drastic reduction in her standards of living. There is also another effect to be noted: Canada was committed to transactions with impecunious customers, whereas she might have directed this trade, at least in part, to the markets of her neighbour to the south. Such action would have tended to alleviate the strain on her reserves by supplying some of the funds to pay for her necessary imports from that country.

It can be concluded therefore, that Canada's policy is justified in the long-run inasmuch as she has the highest possible interest in the re-establishment of a multilateral system of settlements; but, in the short-run, the scope and extent of her credits has served to increase the strains on her economy and to subject her people to further hardships.

2. European recovery program 'off-shore' purchases.

Whereas both Canadian export credits and the European Recovery Program 'off-shore' purchases have supplied artificial respiration for the present level of Canadian business activity, it is to be remarked that each of the two has a differing influence on the level of Canadian holdings of gold and United States dollars. Whereas the former has tended to deplete those reserves, the latter has been a means of counteracting the drain and increasing the supply of United States dollars available for Canada's personal use. However the prevalent impression that the European Recovery Program would have the effect of automatically solving Canada's United States dollar problem must be immediately discounted. Expenditures by the United States for goods and services fnom Canada under E.R.P. will simply enable Canada to continue export shipments to Europe without having the indirect effect of further depleting her supplies of United States dollars. If it were not for E.R.P. 'off-shore purchases', Canadian exports would have declined inevitably, inasmuch as she was forced to curtail the extension of credits by which the greater portion of 1946 and 1947 exports to Europe were financed. By virtue of E.R.P. 'off-shore purchases,' Canada hopes, not that shipments will be greatly increased, but that they will be maintained at least at the 1947 level.

It is a fortunate circumstance for Canada that the United States has undertaken to continue the task of aiding in the reconstruction of the production and trade of Great Britain and Western Europe. Had there been no United States provision of aid to Europe, Canada would have been compelled to curtail her exports to that area, involving sacrifices and painful adjustments in large sections of the country. Furthermore, imports from the United States would have had to be much more stringently controlled and restricted because the supply of United States funds obtained from E.R.P. 'off-shore' purchases would not have been available for payment of these imports. In the short-run, therefore, Canada will be enabled, through the funds under E.R.P. to carry on her export trade in roughly the same volume and nature as before, avoiding a radical reorientation of her productive system, and, to maintain higher levels of investment and income than would otherwise be possible. In the long run, if such aid should re-establish the trading status of Europe, that pivot in the pre-war world trading system, Canada as well as all members of the society of nations stands to benefit immeasurably.

In July 1947, sixteen Western European countries met in Paris to discuss an offer of assistance from the United States. They formed a Committee on European Economic Co-operation and included Austria, Belgium, Denmark, France, Great Britain, Greece, Ireland, Iceland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland and Turkey. To that list there since has been added German Bizonia, the two merged zones occupied by United States and

British forces, and the French occupation zone of Germany. Their combined resources were carefully reviewed, together with their requirements, and the results were presented to the United States Government. After such information was carefully reviewed in the United States, the Congress of that country passed the Foreign Assistance Act of 1948 on April 3 of that year.

One of the fundamental principles of E.R.P. is that the participating European countries must so integrate their economies as to help themselves to the greatest possible extent before employing E.R.P. dollars for purchases in the Western Hemisphere. The purpose of the program then is to provide the margin of victory in the struggle for recovery. In order to implement the provisions of the Foreign Assistance Act as administered by the Economic Co-operation Administration (ECA) in Washington, each of the participating countries was invited to draw up a list of its requirements on a three-month basis, and also an overall list of requirements for the United States fiscal year July 1, 1948 - June 30,1949. In these lists, countries were asked to show their total import requirements, the source from which they preferred to secure these commodities and whether or not they wished to have them paid with ECA dollars or with their own earnings. These national programs are screened in Paris by the C.E.E.C. and an effort is made to ensure that the total requests are kept within the limits of the moneys appropriated by ECA and also to ensure that countries are not seeking imports from the Western Hemisphere of such commodities that are available in any of the participating countries. The consolidated import requirements are then forwarded to Washington and reviewed by E.C.A. officials before approval is granted in whole or in part.

Under this aid to Europe program then, the United States disbursed a total of $4,457,648,967. for the period April 3, 1948 to December 31, 1948.(2) Of this total, purchases of foreign aid commodities in Canada reached $651,126,776, being 15 percent of the total expenditure and 49 percent of all authorizations outside the United States. The United Kingdom was the largest recipient of Canadian commodities with a total of $543,389,129 of which $246,336,629 was for wheat; the balance was distributed among 15 countries of Europe and Asia. As for the future, on February 8, 1949, Paul G. Hoffman, Economic Co-operation Administrator presented to the United States Congress an aid program for the 15 month period April 3, 1949 to June 30, 1950 entailing: (1) $1.15 billion to help non-communist European countries over the next April to June period (2) Another $4.28 billion for the fiscal year beginning July 1, 1949, and (3), $150 million to be spent in long-range planning beyond the end of the fiscal year.(3)

The products that Canada has shipped to England under the E.R.P. program have consisted mainly of wheat, beef, bacon, cheese, eggs, timber, nitrogen, lead, aluminum, copper and zinc. The quantities shipped of these and other commodities is subject to wide fluctuation depending on a number of factors. The first and most important is that the wording of the Foreign Assistance Act is such that limitations are placed on agricultural 'off-shore' purchases in the event that a surplus supply of those particular commodities should appear in the United States. Secondly 'off-shore' purchases in Canada can be reduced by the E.C.A. in Washington because of lower prices elsewhere, because of foreign decisions to defer shipments for the present due to increased

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(2). Paul G. Hoffman, Economic Co-operation Administrator, speaking before the United States Senate House, Foreign Affairs Committee, February 8, 1949, reported in the Ottawa Evening Journal, 64th. year, no.50, issue of February 8, 1949. p.14, col.7.

(3). Ibid., p.14.

domestic supply, and because of the substitution of certain commodities for those previously requested.

Despite such contingencies however, it is to be hoped and expected that 'off- shore' purchases in Canada will continue at approximately the same rate, thereby augmenting Canada's holdings of gold and United States dollars. Nevertheless, such a continuation is not guaranteed, and Canadian or European Government officials have no licence to make broad calculations on the assumption that E.R.P. will continue until 1952. E.R.P. will continue just as long as Congress permits, and the United States Congress, it must be remembered, not only is subject to party vicissitudes but also is dependent upon the whim of the American tax-payer who is not too well informed as to the advantages of what he regards as a large piece of philanthropy. Furthermore, in the event of Europe's recovery - a long and painful proposition at best - being retarded by political and other circumstances, the United States might well conclude that Europe was hopeless as well as helpless, and discontinue the program entirely rather than throw good money after bad.

CHAPTER V

POSSIBLE SOLUTION - RECONSTRUCTION OF THE MULTILATERAL SETTLEMENTS SYSTEM

There is a chance that the results of the Marshall Plan, in the near future, and the results of the Geneva Agreements, in the distant future, will bring about European recovery. However, it is by no means certain that this recovery will also restore the triangle that in the past brought Canada its United States dollar exchange. Should Canada gamble on the kind of world that brought her dollars in the past?

A reasonable equilibrium in the world distribution of productive power has been lacking since 1914; as the result of the events of 1939-45 the international economy has been further distorted. Such distortion has necessitated: (1) that the Western Hemisphere give billions of dollars of quickly consumed relief (U.N.R.R.A.); (2) that further aid be granted (E.R.P.) to prevent European collapse into economic and social chaos. However, the E.R.P. or Marshall Plan, no matter how well devised, is not the final solution to the problem of European recovery; rather it is the beginning of a construction policy that will require further implementation. In any attempt therefore to gauge the possibilities of complete European recovery it will be necessary to start first with an evaluation of the European Recovery Program or Marshall Plan.

1. Evaluation of the European Recovery Program.

A balance sheet on the Marshall Plan will carry a number of items on the liability side. Firstly, the program will be costly, a four year program calling for $17 billion or more. The money will come from the United States with the exception of $700 million which other Western Hemisphere countries are expected to furnish. However, this forecast is subject to change; no one can foresee the trend of prices. What $3 billion buys today may go for $5 billion or $2 billion two years from now. If price increases continue, it would mean that the United States would have to make available an even larger amount of dollars to command the estimated value of goods. Furthermore, the European countries cannot foretell just what they will be needing when the century turns the half-way mark. Their requirements may go up or down; any interruption in the pipeline of supplies or serious political disturbances in the countries concerned might render more aid necessary. And all this aid comes eventually from the tax-payer, and at a time when the United States is undertaking tremendously increased spending for military stock-piling, universal military training and an expanded air force. Though the burden that the tax-payer must bear is heavy, there are certain compensating factors in respect of the money that he must furnish to implement the Marshall Plan. The functioning of the American economy is related in a certain degree to the fate of Europe. A progressive decline in the producing and buying power of the 270 million people in the recipient countries would have a certain effect upon the American economy. Moreover the continuing unproductivity or a deterioration of the European economy, would have a cumulative effect, inasmuch as prosperous conditions in Europe are essential to the maintenance of United States trade in other parts of the world such as Canada, Australia, South Africa and New Zealand. A disintegration of the European economy would further curtail the power of these countries to buy United States goods.

Secondly, at least in 1948, a number of troublesome bottlenecks were continued and even magnified. The materials listed by the Committee on European Economic Co-operation as being most urgently required - cereals, nitrogen, coke, scrap metals, steel and various types of equipment, included the very commodities for which American demand was the strongest. As a direct result the United States Government was forced (1) to institute export controls, and allocations for domestic use, (2) to discourage misuse and excessive use, (3) and to issue a request for efficient transportation and distribution as well as the curbing of speculation and hoarding of goods. Another effect of the foreign demand for certain materials was that some United States producers most certainly did not realize the expansion planned, further affecting the satisfaction of American demand.

As a corollary of the foregoing it should be mentioned that the cost of living, the peg on which much of the recent United States labour troubles has hung, moved down very little, and could possibly rise to further heights. It would appear that the United States is now in the midst of a tremendous inflationary boom, and the United States Government foreign aid policy has served to intensify it. The basic cause of the rise in American food prices for example, has been it is true, the increase in domestic purchasing power brought about by the wartime tripling of the supply of money and credit. But in addition thereto, the outside world's demand for United States goods, increased and made possible by her loans and gifts, has certainly impinged upon the United States cost of living to some extent. The following table shows the relation of United States exports to Gross National Product for certain years.

TABLE V (1)

United States exports compared with Gross National Product
(in billions of dollars)

Year	Total Gross Nat. Prod.	United States Exports of goods and services: Value	Percent of G.N.P.
1919	77.9	10.8	13.9
1920	85.0	10.3	12.1
1925-29(Average)	92.9	6.6	7.1
1938	84.6	4.2	5.0
1946	203.7	15.3	7.5
1947	231.8 est.	19.5 est.	8.4
1948 with Marshall Plan	230. est.	19.0 est.	8.3
without Marshall Plan	230. est.	15.0 est.	6.5

The above therefore, would seem to indicate that the United States should not have been particularly affected by a shipment abroad in 1948 of a percentage of her national output that was substantially the same as was exported in 1947, only slightly higher than in 1946, a trifle more than a percentage point higher than the average for the prosperous years 1925 to 1929, and very much lower than the proportion exported in the years 1919 and 1920 immediately following the First World War. It is to be considered then, that any adverse change in the cost of living in the United States in 1948 cannot be attributed to the relatively temperate and stable pull of exports, but it must be remembered that such policy tends to keep the cost of living at its high level.

The fourth item on the liability side of the Marshall Plan balance sheet is the fact that in helping Europe to equip itself, American industry is arming a potential competitor. Whether E.R.P. is indeed a world recovery

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(1). May, Stacy, Measuring the Marshall Plan, article in Foreign Affairs, Vol.xxvl, no.3, April 1948, New York, Foreign Affairs, 1948, p.464.

program will depend in the last analysis upon the ability and willingness of the American market to receive increased imports of the world's goods. The present maladjustment can never be corrected on a basis of expanding trade unless market conditions in the American Continent permit Europe to sell goods therein in steadily increasing quantities. The best help to an unemployed man is not a loan or a gift but a job. This maintains his self-respect and independence; it enables him to contribute services of a value at least equal to what he receives; it adds to the national income. For like reasons, the best way to help Europe is not to make doubtful loans or gifts but to buy her goods. As a consequence therefore, the United States must re-examine her attitudes towards foreign trade. American trade attitudes as expressed in her commercial policies favour strong barriers against imports. Despite the ameliorating effects of the Hull Reciprocal Trade Agreements Program and the Geneva Agreements on Tariffs and Trade, the United States tariff walls are still among the world's highest and stoutest. It is true that the United States as a result of the Geneva Agreements has dropped her tariff barriers to the lowest average level of the past century - 18 to 20 percent, and there is a possibility of still further reductions as the result of negotiations at Annecy, France, beginning April 10, 1949, when trade negotiations with thirteen additional countries are to commence. However, thus far, tariffs have been reduced on a selective basis and it is difficult to gauge the worth of such reductions because of the present dislocation of world trade. The United States should realize that any excess of exports over imports, except in the case of direct gifts, must be paid in terms of imports at a later date, and the longer the United States takes to accept this fact (i.e.further loans) the greater will be the effect on her economy when re-payment must be made, - much more goods will have to be moved. Will not the natural protectionist instinct of the United States nation then clamour for higher tariffs? Possibly she will be able to protect her own market, but will she be able to dominate the world markets as she does now? A revamped, regenerated, and refurbished European economy will most surely offer stiff competition and affect to some degree the profits that the present-day American exporter is enjoying. Furthermore, if American producers should request a protective tariff against European exports in order to protect their domestic markets, then the E.R.P. aim of tariff reduction would be voided, and the money expended under the Plan could be considered as wasted insofar as the American tax-payer is concerned.

The fifth liability in the Marshall Plan balance sheet is, that there is no guarantee that the program will succeed; as a matter of fact certain conditions essential to its success look like a risky bet indeed. And if European collapse comes after billions have been poured in, the United States shall be just that much weaker in protecting herself from the resultant cataclysm. The budgets of most recipient countries are unbalanced. Heavy sums are being spent on armaments, on subsidies to nationalized industries running a deficit, on food subsidies, and on increasing pensions, family allowances, and other forms of social security. None of these expenses, the governments insist, can be reduced. In the overall picture, there is too much money chasing too few goods, and as a result, inflation is rampant in most countries, with commodities priced out of the international competitive market. For example, the sort of textiles that Canada used to buy in Britain in large quantities before the war, are now about 25 percent dearer than the price at which she can buy in the United States. Goods of equal quality must be at prices equal to the lowest prevailing rate before they will be purchased (unless of course they are subsidized or subject to trade agreement). Furthermore most European countries need raw materials and machinery and wish to buy them abroad as cheaply as possible. They attempt to do this by keeping the official exchange rate for their currency arbitrarily high and by making it a crime to buy or sell currency below this rate. Such action makes their own goods extremely expensive in terms of foreign currencies. Imports are encouraged and exports are discouraged. To relieve the strains on their economies ensuing from such policies, these countries attempt to restrict the number of imports by proclaiming special licensing requirements, and, to encourage the flow of exports they enter into bilateral trade agreements. As already mentioned on page , 113 of such pacts out of a total possible 231 had been consummated on May 3, 1948.

Such actions are the direct antithesis of the aims of the Economic Co-operation Act of 1948 which read in part: to further the restoration or maintenance of the soundness of European currencies, budgets, and finances; and to facilitate and stimulate the growth of international trade of participating countries with one another, and with other countries, by appropriate measures including the reduction of barriers which may hamper Trade.

So much then for the shortcomings or liabilities of the Marshall Plan; none of them can be taken lightly, but most are susceptible to intelligent determination. Against these liabilities however can be placed some very weighty items on the asset side.

Firstly there is the simple and humane consideration that without Western Hemisphere aid, people in a number of Western European countries would be placed in dire straits indeed. At best they would lack adequate food for a healthy life; at worst they would starve. Without the strong financial and economic aid from America, which alone is able to give it, Europe would certainly sink deeper and deeper; the extinction of the rest of Western civilization, would certainly affect North America, morally, politically, and economically. Economically the Canadian people would feel the incidence of such a situation much more heavily than would the American people inasmuch as Canada is approximately three times more dependent upon foreign trade than the United States.

Secondly, the economic situation in Western Europe has profound political and strategical meaning for the Western Hemisphere. If Western Europe ever loses its political independence to another foreign power, the ultimate cost to America will make the Marshall Plan expense seem like a mere pittance. It is undoubtedly true that communists would capitalize on starvation and economic chaos in Europe with attempts to seize governmental power, such actions having more than an even chance of success in some countries. If therefore, Western Europe were to come under Russian hegemony, the exact condition would exist which the last war sought to prevent: the domination of Europe and Asia by a single power that could menace the security of the Western Hemisphere.

Finally, the Marshall Plan offers the only hope of realizing some measure of economic stability patterned after the pious hopes of the International Trade Organization Charter. In a world that today appears to be permanently upset, this program can do no harm. Even if the program falls short of its stated objectives, Western Europe will have taken a long step forward.

2. Obstacles in the path of European recovery.

The liabilities as aforementioned, may not mean, and certainly should not mean, the discontinuation of American aid. Assuming therefore that the Marshall Plan will continue for another three years, and assuming the present trends to continue, the world has no guarantee and in fact is downright certain that sterling will not be convertible into dollars at that time. American aid can do only so much to effect European Recovery; the countries of Western Europe must travel the remainder of the road by themselves. What then are these European countries doing now, - what will they do in the future,- and as a result, what are the long-run prospects for full European recovery?

Alone and in isolation these countries of Western Europe cannot hope to regain their world trade status. But, by working in co-operation, pursuant to a basic principle of the Marshall Plan, they will be enabled to concentrate their efforts upon developing production in the way which is most effective. However, the difficulty lies in the fact that such co-operation will create a need for adjustments of various kinds in their economic systems; both Governments and peoples must be prepared to look at the problem not in the light of their individual interests but in the light of European needs as a whole. The old ideas of inherent European suspicions, jealousies and competition must be put behind them; European co-operation, a fundamental determination to work and plan together, is the only basis for their future safety and prosperity.

Despite the need and necessity for such co-operation, the opposite tendencies now exist in the Western European countries (with the exception of Benelux). Trade is being fostered by means of bilateral treaties. For example, Britain is making trade deals with many European countries, some on the wrong side of the iron curtain, in preference to trading with Canada. It is true, that such action is one means of circumventing the shortage of Canadian dollars created by her lack of sales to this country, but, the difficulty could also be attacked from the supply side as well as from the demand side. Britain could very easily increase her volume of sales to Canada by extending some of the special assistance to exports to Canada that is given to exports to other countries. Why then does she continue her present restrictionist policies? The reason, it would seem, is that these bilateral trade agreements are usually straight trades of goods for goods, and Britain having a certain proportion of the goods that are scarce, and therefore in great demand, is enabled to force on her partner a certain number of products that could not otherwise compete in the open market. Such action most definitely does not tend to direct producers into those lines in which Britain would be most efficient, and therefore of most value to herself and the remainder of the society of nations.

Such action also tends to destroy the price mechanism and its incentive. Inasmuch as these trade pacts are straight trades of goods for goods, it does not matter how much is paid for the individual item, but usually, the price is higher than that prevailing in the competitive market in order that the recipient may be persuaded to offer privileges to other goods. Therefore there is a tendency for prices in soft-currency areas, the countries practicing such policies, to become divorced from prices in hard-currency areas. Such a divergence plays a considerable part in increasing sterling costs and at the same time it inevitably directs attention of manufacturers, in those countries, away from difficult markets at lower prices in dollar areas to much easier markets at better prices in closed trading areas where exports of such countries enjoy privileged treatment. In the long-run, such policies will not lend to the reconstruction of the European economy on a multilateral trade basis, for such a trade basis involves open competition on a price basis. Because of the increasing number of such bilateral agreements and the duration of those already in existence it is doubtful if full recovery of the European economy on a widely trading basis is to be expected.

It can readily be seen that the pledges of the Western European countries to expand intra-European trade by reduction of tariffs and other obstacles to international commerce, and to promote the production of those commodities which will be most conducive to their rehabilitation and future prosperity, are, at least for the present and possibly for the future, being discarded in direct disregard for the principles of the Marshall Plan and also in disregard for the principles of maximum economic recovery. Furthermore it is to be feared, and this fear is growing all the time, that the ideology of socialism in Britain is clashing directly with the hopes of recouping European industry through co-operation. The theory of state planning collides with the basic concept of the Marshall Plan because the Marshall Plan involves, as a first stage, the modification of the national economic plans of the European nations and therefore impinges on the theory of national sovereignity. This conflict, perhaps, is inevitable in the very nature of socialism which, after creating a delicately balanced system of planning at home, must seek to guard it against outside forces, economic and political, which would certainly throw it out of gear and might even wreck it. However, British socialism as yet, has resulted only in the abolition of private ownership in some major industries, but, if the program is carried through to its logical conclusion, the world must be prepared to face a system of trade replete with barriers and controls that will serve to reduce and restrict a potentially high level of trade.

Other considerations must also be taken into account in attempting to analyse the possibilities of full European recovery. One of the most important and one of the most obvious is the threat of communism. In France for instance, it is probable that if a national election were held today that more than 5 million Frenchmen would mark their ballots for the communist ticket, that somewhere between 20 and 30 percent of the voting population of France today is communist for political purposes.(2) A wartime fifth column

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(2). Inglis, P., France in the Balance, article in the Ottawa Evening Citizen, 106 year, no.110, issue of November 5, 1948, p.17, col.4-6.

of this size is a terrible enough thing, but what of the size of the economic fifth column which is undoubtedly at work today. Certainly it is greater, proportionately, than its numerical size, but how strong and how single of purpose? Some of the answers can perhaps be found in the story of the 1948 coal strikes. These strikes were called by the General Confederation of Labour which is the strong arm of French Communism. There was no doubt as to their purpose: to weaken the economy of the country and thereby to weaken the effectiveness of the Marshall Plan, and, at the same time, to heighten domestic discontent. The activities of the French Communist party would seem to be directed therefore to: first, the sabotaging of the United States in all its works, particularly the Marshall Plan and the conception of a Western Union; second, to increasing the difficulties of the present Third Force Coalition government of France; third, to opposing de Gaulle and his authoritarian "Union of the French People". Furthermore, if the Third Force fails, France will be left between the Communist anvil and the hammer of de Gaulle, with de Gaulle probably obtaining control and instituting his fascist policies inasmuch as he has a vote control of probably more than 40 percent of the population. France therefore, must first of all re-establish social order, or she will never regain the place which she is by nature called upon to occupy in the concert of European powers.

The threat of Communism is to be feared in more countries than France. Other countries such as Britain and Italy have their problems also, and in the latter country the situation is seemingly as serious as in France. Recently, the communist elements in these three countries have declared themselves of one will in that in the event of a war between Russia and the West they will unanimously and wholeheartedly support Russia. Such positive action would constitute a serious menace in such an exigency, but even more to be feared in the immediate present is the probable undercover support being given to Russia, - support designed to thwart the policies at present in force in Britain, France and Italy.

In regard to Italy however, additional obstacles lie in the path of her economic recovery. So chaotic is that country's economy with its two million unemployed, and an estimated one million more kept in employment only by uneconomic subsidies to unprofitable industries, that it is felt that even the infusion of United States dollars will provide only a temporary lift. It is considered that although the Marshall Plan may revive her sick economy, it cannot, even at its most successful, solve Italy's economic plight. That country has a relatively large number of her people unemployed, a number that could become further enlarged, assuming that her population continues to grow at its present rate. Moreover, she has not within her own power, the ability to correct such an unemployment trend. Italy is a 'have-not' country, one of the poorer nations of the world economy insofar as raw materials are concerned. Concomitant with the necessary influx of raw materials there must be an efflux of manufactured products, or in other words, the proper functioning of the Italian economy is markedly dependent on international trade. Foreign trade then is the key to the economic revival of Italy. Fuller export possibilities will have to open up in the North American continent itself, in Germany, Great Britain, and especially in Eastern Europe, or Italian factories will continue to close for want of markets. If her foreign trade position does not improve, the Italian economy already reeling under the impact of inflation, cannot achieve any marked recovery.

In any economic survey of Europe it is most necessary to consider Germany. Germany has become the economic cancer spot of Europe, producing a pitiable fraction of its pre-war industrial output. The German Ruhr was second only to Britain as the greatest pre-war source of Europe's coal supply, and the low-level of production in that territory has slowed down the whole economy of Europe. The surrounding countries, Switzerland, France, Belgium, Holland, Denmark, Sweden, whose economies were closely tied in with Germany, have suffered through the German collapse. The first key to the revival of Europe then, would seem to be the economic revival of Germany, and the great obstacle to German recovery is not the destructions and dislocations of the war, huge as they were, but the carving up of Germany and the present socialist policies imposed on her by the Allied occupation forces. In the British and American zones, for example, the restrictionist policies imposed seemingly to keep Germany an economic vacuum, have reduced and disorganized production to an appalling extent. The 'level of industry'plan prevents various trades from turning out more than a small percentage of their pre-war output; and because of an untold number of economic prohibitions, and requirements of a special license for almost every economic act, incentives are non-existent, labour and materials are misdirected, and production is utterly demoralized. Germany in the past has played an important and vital part in the European economy, and any restrictions imposed from without in an attempt to stifle German production will have a concurrently detrimental effect on the progress of European recovery.

It would appear that the Marshall Plan in the rather simple form originally conceived, cannot succeed in reviving the European economy within the time originally set. Assuming present trends to continue, there is no means by which the Marshall countries can, even with the present scale of American aid, prevent a serious fall in their standards of living in 1952. For example, Britain in 1947 had an over-all visible trade deficit of 314.5 million pounds;(3) she is in the throes of inflation, spending more than she

(3). United Kingdom Balance of Payments 1946-47, cmd.7324, London, His Majesty's Stationery office, 1948, p.3.

is earning, importing more than she is exporting. What hope has she of closing the gap between the cost of her comforts and the value of her exports by 1952-53 when United States aid will come to an end. Barring unforeseen happenings, it will take her five or six years to restore the convertibility of sterling and from ten to twelve years to achieve a stable and satisfactory standard of living. Actually all that the Marshall Plan has done, is to provide Europe's stricken nations with time to face their problems. The problems, compounded of political, social, economic, and sometimes moral disintegration, remain, with a great possibility that years will elapse before they are resolved and a measure of prosperity restored. In the meantime, what further strains will be added to European problems when United States aid comes to an end? Will they revert to the unbridled economic and political nationalism that was unleashed at the end of the First World War and which directed the nations of Western Europe into the road that led eventually to World War II? Three years after that war a United States of Europe is still some distance off. But in those three years more progress has been made towards establishing the economic basis for such a union than in any previous period in modern European history. Most dramatic illustration of this progress in Benelux, - the name applied to the customs union between Belgium, the Netherlands and Luxembourg. These three countries are actually eliminating trade barriers, and are looking forward to pooling their resources and removing currency restrictions. Already they have established such firm economic unity that they are recognized as a single trade area.

It is to be hoped that such union will eventually encompass the remainder of the European group; - it is possible, but not probable. Britain, it would seem, has concluded that her interests in the Commonwealth and in the non-European world prevent her from entering a European union, albeit the large sums appropriated for the Recovery Program by the United States Congress were voted on the assumption that a European system, which Britain would take the lead in forming, could be developed. Moreover, it would appear, that the nations of Europe are intent on developing on a bilateral basis. As a result therefore, European recovery will be a long and arduous process at best, although some measure of prosperity is likely to ensue. Should Canada gamble on the long-term recovery of Europe, with the prospect of continuing financial difficulties in the interim, and possible and probable restrictionist trade levels in the future?

3. Canada's loss of European markets.

Moreover, although Europe should recover at least partially, Canada has no guarantee that the pre-war multilateral system of settlements will be reconstituted. Canada produces certain goods which the world must have, particular reference to the base metal group of copper, lead, zinc and aluminum. In regard to these products, her position is virtually impregnable in any type of world trade; she should always have a ready market for these goods. However, in regard to her forest and agricultural products a different situation does exist. The export volume of these products is subject to wide fluctuations depending on the trade and financial situation of her traditional customers.

In the last few years Canada's entire export program has been geared to the needs of the United Kingdom. Traditionally, the United Kingdom has been Canada's chief market for exported foods. For years Canada has been taught to look upon Britain as her best and biggest customer, and to the British market went the bulk of her fruit, fish lumber and wheat, etc.. Then in 1947, under the pressure of the dollar shortage, the pattern of trade suddenly changed. Of Canada's 7 million odd boxes of apples, not one found its way to a British port, and of her salmon pack, running to 1.5 million cases, not more than 5 percent was taken by the British Ministry of Food. Similarly, in the Spring of 1947, the

British Timber Controller contracted for large quantities of timber with Canadian producers, a contract which was to run until June, 1948. A few months later, the Canadian producers were advised that a dearth of dollars made it inexpedient to take up the quantities ordered and the contract was extended to June 1949. Canada possesses over 90 percent of the entire softwood resources of the Commonwealth, and one-half of this total lies in the forests of the Pacific seaboard.(4) Lumbering is British Columbia's largest industry; it has been developed to its present immense dimensions almost entirely with an eye to the particular requirements of the British market, and now that market is closing. Similarly, it would appear that the Canadian export volume of bacon and eggs will also fall off. In 1949 the United Kingdom has contracted to take 160 million pounds bacon and 46 million dozen eggs as contracted with 195 million pounds bacon and 74 million dozen eggs in 1948.(5)

Britain has been depending on the United States funds under the European Recovery Program to pay for much of her food imports from Canada, but these funds will, in many instances, no longer be available for such purchases as surpluses appear in the United States. It would seem possible that Canadian food exports may drop even further before 1952-1953 when United States aid is discontinued. And from that date onwards, the volume of British imports from Canada may well be determined solely by the volume of British sales on the Canadian market. In such an event, the volume of Canadian exports will drop even further inasmuch as British goods at their present prices, find it difficult to compete with Canada's domestic goods or the Canadian imports from the

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(4). Johnson, Byron I., Dollar Shortage Hits Industry, article written in The Times, London, and reprinted in the Ottawa Evening Citizen, 100th. year, no.84, issue of October 19, 1948, p.30, col.4-5.

(5). Gardiner, Hon. J., Agricultural Minister, announcement in the Ottawa Evening Journal, 63rd. year, no.304, issue of December 8, 1948, p.1, col.8.

United States. Definite action will have to be taken by the British Government to stimulate the flow of goods to Canada at prices that Canadians are willing and able to pay. Canada, for her part, cannot further increase the margin of tariff preference now granted Commonwealth products, since such action would contravene her commitments under the Geneva Agreements.

Britain, it would seem, has resigned herself to a present and also a future low level of trade with Canada. On January 14, 1949, Britain signed a five year billion dollar Anglo-Polish trade pact;(6) previous to that she had signed a larger trade pact with Yugoslavia;(7) furthermore, she has contracted with Denmark to take 90 percent of that country's exportable surplus of bacon - about 120 million pounds;(8) and lastly, she has begun to negotiate a long range trade pact with Russia, amounting virtually to barter and extending that principle of trade well into the period when monetary exchanges may be expected to become stable.(9) This new trend in British food purchasing means that the most substantial props have been taken from under Canada's main export business, and if the oft repeated statement is correct that one out of every three workmen in Canada is producing for the export market, it can easily be seen how serious this whole matter is for the Canadian economy.

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(6). United Kingdom Board of Trade, as quoted by the British United Press in the <u>Ottawa Evening Journal</u>, 64th. year, no.30, issue of January 14,1949. p.1, col.3-4.

(7). Ibid., p.1.

(8). Gardiner, Hon.J., Agricultural Minister, as quoted by the British United Press in the <u>Ottawa Evening Journal</u>, 63rd. year, no.305, issue of December 9, 1948, p.1, col.8.

(9). United Kingdom Board of Trade, as quoted by the British United Press in the Ottawa Evening Journal, 63rd. year, no.228, issue of September 8,1948, p.7, col.6-8.

Furthermore, Britain, in seeking to protect her own economy and to balance her imports and exports, is not merely buying in markets where she has no need for dollars, she is striving as well to make her agriculture self-sufficient. It would seem that in the future, the dollar shortage will not be the real cause of Britain buying less from Canada.

> The task of British agriculture is to make this country as self-sufficient in food supplies as is practicable.---- The old idea that it is normal to import large quantities of feeding-stuffs from abroad and that we can look forward to a resumption of heavy imports as things return to normal is an idea which dies hard; but as a practical policy it is as dead as the Dodo. (10)

Such a policy received its impetus during the war, when the net output of British agriculture was increased by about 35 percent; intensive mechanization made British Agriculture among the most highly mechanized in the world with 190,000 tractors compared with the pre-war 60,000; moreover output per man rose by 10-15 percent. (11) This same trend is being carried into the post-war years. The following table will show the post-war targets for principal crops and livestock production expressed as percentages of pre-war production.

TABLE VI (12)

Targets for United Kingdom principal crop and livestock post-war production

	Pre-war	1943-44	1946-47	1951-52
Wheat	100	209	119	160
Barley	100	215	257	279
Oats	100	158	150	156
Potatoes	100	202	209	129
Sugar Beet	100	137	164	131
Milk	100	101	107	123
Eggs	100	61	78	152
Beef and Veal	100	83	93	110
Mutton And Lamb	100	70	70	77
Pig Meat	100	37	32	92

(10). Williams, T., United Kingdom Minister of Agriculture, as quoted in editorial in the Ottawa Evening Journal, 64th year, no.30, issue of January 15,1949,p.5,col.2

(11). Economic Survey for 1947, cmd.7046, London, His Majesty's Stationery office, 1947, p.24.

(12). Economic Record, no.9, September, 1947, United Kingdom Information office, Ottawa, 1947,p.3.

Britain's trade experts are planning to reduce imports from the Western Hemisphere by 472 million pounds in 1952-53, whereas in 1947 they stood at 721.25 million pounds.(13)

Such action is not just something for acedemic discussion; it is a hard, grave reality threatening the whole Canadian economy. However it is to be hoped that Britain in her economic planning, will regard Canada as a vitally important partner in her closest economic circle, and that Canada therefore will eventually be able in some degree to follow the old pre-war multilateral system of settlements which enabled her to meet her deficit with the United States.

4. Reorientation of Canadian trade.

What are the possibilities of opening up new markets and new sources for Canadian exports and imports and eventually establishing a system of settlements wherein Britain and Western Europe would not play such an important part? Such action could lead to shifts in world trade currents that could permanently deprive Britain and other European countries of much needed trade outlets and add further to their privations. Furthermore, markets for Canada's products would neither be as wide nor as profitable as she has enjoyed in recent years, and the Canadian economy would consequently suffer.

Trade between Britain and Canada, which has been so successfully and at times laboriously built up throughout the years, cannot be easily adapted to meet altered conditions and most certainly, not lightly abandoned. For example, the magnificent stands of Douglas Fir, Red Cedar and Sitka Spruce on the Canadian pacific coast were developed and exploited with an eye to the particular requirements of the British market. That market did not come to Canada for the asking. In the years before the second world war, Canadian timber producers

(13). United Kingdom Board of Trade, as quoted by the British United Press in the Ottawa Evening Journal, 64th. year, no.5, issue of December15,1948,p.16,col.3

waged a long and hard-fought battle against Baltic competition; they spent much money in making known the excellent qualities of British Columbia woods; they rebuilt their plants to meet British specifications. A change in the market for the product would inevitably entail difficulties and hardships for the Canadian producer. Mr. George Drew, Progressive Conservative leader in the Canadian House of Commons, would eliminate the necessity for these hardships by letting the Canadian dollar reach its real market value.(14) He is probably thinking of the years following the first World War when the value of the Canadian dollar went down to 80 cents and exports increased tremendously. He would not seem to realize that the currencies of other countries (United States and Cuba excepted), are still further over-valued and that therefore no two-way trade between such countries and Canada would take place, - a situation that eventually leads to strangulation of even the one-way flow of goods.

Furthermore, there are very few countries with whom Canada can deal today because of her close adherence to dollar currency. She is not included in the sterling area, and her exports to those countries are limited just as they are to Britain. Her possible markets are therefore considerably narrowed, and to make matters more difficult, it is to be noted that the great remainder of the world trading areas are in a situation similar to Canada with regard to deficiencies vis-à-vis the United States. It cannot be considered that these countries would make United States funds available to Canada if she were to direct her exports to them. As a matter of fact, Canada, would encounter great difficulties in attempting to establish these new markets. Firstly, ever growing nationalism, plus all the exchange barriers, have made

(14). Drew, Honourable G., Opposition leader in the Canadian House of Commons, address delivered at Kentville, Nova Scotia, as reported in the <u>Ottawa Evening Journal</u>, 64th. year, no.2, issue of December 11, 1948, p.6, col.5-6.

trade more difficult. Every country in the world wants to sell today; few want to buy products that compete with home industries; they want to trade but at the same time be self-sufficient. South Africa, Australia and many of the South American countries are leading examples of this tendency.

In respect to those few countries that have a reliable source of United States dollars, such as Cuba, and some countries in Central and South America, it would be a formidable task to open or increase these markets to Canadian products. Such action would mean that the young industry of Canada would have to enter into competition with the highly developed industry of the United States in the latter's home park. In this day and age, it is a bold country indeed, that takes on the American Goliath in his own products and in his vested markets. The problem for Canada in such a competition is that where she is strong, she has already exploited her strength, and where she is weak, she is often very weak indeed. Her position in pulp, newsprint, lumber, a number of base metals and a few other natural products is unassailable; but except, as she might undertake some further processing (of pulp for example), she is already fully in business in these items. The question then arises as to the need of the above-mentioned products in these tropical and semi-tropical zones. As far as agricultural products and most raw materials are concerned there should not by any competition, but competition in the industrial domain is bound to exist and increase as great efforts are made in both latitudes toward industrialization. Trade between the two areas is also subject to the pressure and influence of the United States. Even if Canada could compete with the United States in these countries, the matter of return payment is subject to difficulty. For example, Brazil grows oranges which are of size and quality comparable to those which Canada imports from the United States, (and at a cheaper price), but Canada was unable to conclude a contract with Brazil for these oranges because of the influence of American orange producers who ship to Canada. Canada therefore is forced to accept payment in goods which do not reduce her dependence on the United States, - her balance of payments difficulties vis-à-vis the United States are therefore not greatly alleviated.

Another difficulty to be considered in regard to the possible reorientation of Canadian trade as a means of supplementing her sources of supply for United States dollars, is the existence of cartels. The records of official enquiries show that in the pre-war period there was a definite growth of private international agreements which have affected Canadian commercial policy sometimes in the form of restriction of imports, other times in the limitation of Canadian exports, and not uncommonly in the subjection of the control of Canadian industries to decisions made outside Canada. Fertilizers, tanning materials, flat glass, dyestuff, sulphur, titanium pigments and cemented tungsten carbide tools are subject to cartel arrangements affecting Canadian import commodities. Examples of cartel arrangements which restrict Canadian manufacturers to the home market on an exclusive basis exist in the production of chemicals, soda ash, electric lamps, matches and radio tubes and sets. Cartel arrangements involving participation by Canadian exporters exist in the following production lines: copper, lead, zinc, nickel, steel, aluminum, acetic acid, radium, newsprint. These cartels attempt and generally succeed, in eliminating competition and controlling production and distribution in wide areas of trade. This allocation of markets through private restrictive arrangements impinges on government authority over foreign trade, and could easily nullify a Canadian trade policy designed to reorient trade. A government policy to encourage either imports or exports of the commodities listed above could prove ineffective in the face of import or export quotas and other quantitative limitations imposed by cartel agreement.

Concluding this chapter on the possible re-constitution of a multilateral settlements systems as a means of supplying Canada with United States dollars, it should be agreed that its pre-war degree of effectiveness will never again be apparent in solving the Canadian balance of payments difficulties vis-a-vis the United States. Such a conclusion does not preclude a much smaller degree of effectiveness, and even for that small allottment Canada should be thankful. Canada should do all in her power to solve her difficulties by means of any triangular or quadrilateral system of settlements, for in that way, both she and the rest of the society of nations stands to obtain the greatest benefits from international specialization and division of labour.

CHAPTER VI

POSSIBLE SOLUTION - ECONOMIC INTEGRATION OR CUSTOMS UNION WITH THE UNITED STATES.

Because of the doubtful prospect that a reconstitution of the pre-war multilateral payments system will solve Canada's future balance of payments difficulties vis-à-vis the United States, another possible solution must be examined and evaluated. Such an alternative would be to correct the difficulties at their root by bringing Canada's trade with the United States into better balance. Both negative and positive policies could be employed by Canada to bring about such a situation, but for purposes of this discussion, only the latter shall be considered, inasmuch as the former, in the form of trade restriction policies, would not be in the basic interests of Canada nor of the society of nations. In order to bring Canada's trade with the United States into something like balance,through constructive action, and therefore obviate the necessity of seeking elsewhere for United States dollars, two things are needed: increased production in Canada of the products the United States can use, and increased willingness in the United States to buy these products. Such a flow of goods across the Canadian-American border can be facilitated by way of economic integration or customs union between the two countries.

Some vital points to consider in future Canadian-American relations are: Canada and the United States are the two nations with the vitality and resources necessary to restore the world to economic health - both produce more than they consume; in the United States and Canada private enterprise and individual freedom are highly prized - the two countries form a bulwark against communism; Canada needs America's manpower, productive resources and dollars, and America needs Canada's raw materials; and lastly, the two economies properly co-ordinated in profitable partnership could enable the two countries to lead the world back to economic stability.

It would seem therefore that co-operation in the economic field will be of paramount importance in the days and years to come. But what does such co-operation involve? In the long-run can it be worked out on a mutually profitable basis? Will it present a long-term solution to Canada's shortage of United States dollars? These are the questions that must be considered in an evaluation of the prospects and results of economic co-operation with the United States.

Canada is already selling a lot of goods to the United States but in return she is buying much more than she sells. She buys twice as much from the United States as she sells to that country; and there are no markets that Canada can look to in the foreseeable future that can provide her with cash with which to settle an adverse balance with the United States which in 1947 amounted to approximately $1 billion. By virtue of her Austerity Program she has instituted measures to reduce that balance by (1) restricting imports (2) increasing exports to the United States. As a result of these measures adopted in November, 1947, imports from the United States were $169 million lower in value in 1948 than in 1947 and exports to the United States rose by $466 million or by 44 percent from 1947.(1)

1. Economic integration.

It might be considered therefore, that Canada and the United States are tending towards a close working agreement called economic integration. However, there is a large amount of difference between the co-operation now

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(1). Annual Report to the Minister of Finance and Statement of Accounts for the Year 1948, Ottawa, Bank of Canada, 1949, p.24.

being practiced and the strict meaning of the term , economic integration. Economic integration means that each country produces those goods which it can produce most economically and sells them in a combined market. It means cutting tariffs selectively here and there, but not wholesale reduction.

Economic integration as now being practiced by Canada means only bringing pressure to bear on some of the more important of the United States branch plant operations in Canada- as yet nothing more is involved. The idea is to have the parent company agree to: (1) allocate hard currency markets to its Canadian subsidiary, and (2) to revise the operations of the Canadian subsidiary so that this branch earns dollars by selling part of its output back to the United States. The Canadian government has a powerful threat to use in implementing its policies: it has the power to prohibit the importation of metals, machinery and parts without which the United States branch plants either would not operate at all, or else would be forced to reduce production considerably being dependent on their own production of parts from Canadian raw materials.

Such commercial policy involves numerous difficulties. On the basis of data compiled by the Dominion Bureau of Statistics for industrial and commercial concerns, the following totals may be given for American controlled and affiliated companies in Canada at the end of 1939.

TABLE VII (2)

American controlled and affiliated companies in Canada at the end of 1939

Classification	Co's Controlled in U.S. No.	Co's Controlled in U.S. Total Invest.	Total invest. in all Companies in Canada	Co's controlled in U.S. as percentage of total
	(money figures in millions of dollars)			
Mfg. Co's.				
Vegetable prod.	92	104	539	19
Animal prod.	45	48	250	19
Textiles	55	22	347	6
Wood and Paper prod.	123	303	961	32
Iron and its prod.	214	203	698	29
non-ferrous metals	115	143	185	77
non-metallic metals	58	169	291	58
Chem. and allied prod.	220	117	172	68
Misc.	53	22	41	54
Totals Mfg. Co's.	975	1130	3484	33
Mining and Smelting Co's.	69	311	822	38
Utility Co's.	109	634	5499	11
Mdse. Co's.	412	125	2094	5
Grand Totals Indust. and Comm. Co's.	1565	2200	11899	18

(2). Report of Commissioner, Combines Investigation Act, Ottawa, October 10, 1945, Canada and International Cartels, Ottawa, King's Printer and Controller of Stationery, 1945, p.41.

It is easily understandable that the parent company in the United States would not wish to have its Canadian subsidiary competing with it in export markets, and much more easily understood that the subsidiary company would be non-competitive with the parent company insofar as the latters domestic market is concerned. What hope is there then, of substantially increasing Canadian exports to the United States and other hard-currency countries? To advert to a previous statement that Canadian exports to the United States in 1948 had increased by 44 percent,(3) it should be noted, that the increase was due mainly to greater shipments and higher prices in respect of non-ferrous metals, higher prices for forest products, and the removal of most embargoes on the shipment of Canadian agricultural products to the United States. The prospect of achieving any marked success in lessening current account deficiencies through a direction of subsidiary produce to the markets of a parent company would seem to be dubious indeed - it contravenes human nature.

Therefore, to accelerate exports to the United States, Canada will have to depend on export surpluses of domestically-owned industries, especially in the manufacturing field. To this end, the Canadian austerity provisions direct that capital goods imports are to be allowed only for projects that will aid in the development of her natural resources of mines, forests and fields which will find a market in the United States, and, for the expansion of manufacturing industries that will be able to compete in the United States. In this way it is hoped that the deficiencies in Canadian current account will be lessened in the years to come through an increased selling program in the United States - the result of economic integration.

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(3). refer page 62 - paragraph 3

However, another contingency is implicit in such a course of action:- will the United States, or will she not, drop her tariff barriers to admit the entry of Canada's goods in order to build up a better two-way trade and thus bring Canada's commerce with the United States into better balance. The basic difficulty in present day Canadian trade with the United States, is the tariff of that country, which on the whole is the most protectionist in existence. United States tariffs against Canadian natural products are not now a great hardship because of the high level of economic activity in the United States and the consequently high level of demand for raw materials; but it is different in regard to Canadian manufactured products. Canada has become an important industrial country (the world leader in per capita industrial production) and under the present plans deems fair to become even more important. The restrictions imposed upon Canadian manufactured products therefore create considerable difficulty, and could possibly ruin any scheme to build up a better two-way trade. Just what the United States can be induced to do about it, is a matter for considerable thought, although it is true that the United States has now dropped her tariff barriers to the lowest average level of the past century. It is to be considered however, that no further reductions will take place for some time, and, in the event of a recession or depression, the tariff level will immediately be raised because of internal pressure. In such an exigency, Canada would again be faced with the difficulties now at hand - a narrow range of industries with specialized production beyond domestic consumption, and, as a result, the structural features of her economy would again give rise to balance of payments problems.

Therefore economic integration between Canada and the United States has its disadvantages as well as advantages. One thing is certain, however, that in time of war, or in a period of unsettled peace, there will most certainly be close co-operation for mutual security reasons. For example, an integrated North American arms production agreement is more than possible. The ground work for such close economic co-operation has been laid down in several documents. The Ogdensburg Agreement of 1940 provided for permanent joint defence of the North American continent, which continues in force even during peace. The Hyde Park declaration of 1941 solemnized the economic marriage of the United States and Canada and provided the means of integrating the economic facilities of both countries for their most effective use. And lastly, an exchange of notes in May 1945 between Canada's National Defence Minister and the United States Ambassador, extended the Hyde Park Plan for close economic co-operation into the difficult years of reconversion. Canadians and Americans know that during war or under menace of war, there can be no dividing line between the military and industrial efforts of the two countries, for both are intent upon protecting the industrial and agricultural heartland of North America from which springs the political, economic and military power of the two countries.

In time of war or impending war, therefore, economic integration should and undoubtedly will be pursued to its fullest extent; but in times of peace or normal times, it is unlikely that the modicum of economic integration probable will allow Canada to solve her balance of payments problems in their entirety.

2. Customs union.

A sharp line of demarcation must be drawn between economic integration and customs union. Customs union means tearing down the tariff walls between Canada and the United States and erecting a uniform wall around those two countries, and because the United States has twelve times as many people and eighteen times as much economic power (4) as Canada, it is to be realized that such a wall would be mainly a United States creation.

It has been quite truly stated that the best possibility for the society of nations to expand the volume of world trade and production is to help create as large a pool of trading nations as possible - and that failing that, group trading would be the next best possibility. The typical group would probably have at its centre one of the great manufacturing powers and as partners or satellites, a group of countries producing raw materials and food. No great stretch of the imagination is necessary to name the countries which might act as the centres for such groups, i.e. Britain and the United States.

In regard to Canada, the choice would be difficult indeed, even though all sentimental or political considerations were set aside. In years past her trade with the United States has been increasingly important as her exports of forest and mineral products grew; yet her farm products were still forced to find their market for the most part overseas. To join either group therefore, would mean important losses to some Canadian regions and drastic readjustments everywhere. Clearly, access to the markets of one group would be a very poor substitute for access to both.

But suppose for the sake of argument that Canada did enter a customs union with the United States, with drastic over all elimination of trade barriers. Trading would then be free and only such manufacturing industries could survive in each country as were efficient enough to do so in open com-

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(4). The total gross national product of the United States in 1947 was approximately $231.8 billion(refer tableV, p.40); the total gross national product of Canada in the same year was $13.5 billion (Hansard, Volume 88, no.40, issue of March 22, 1949, appendix, p.6.). It is to be considered then that the United States has approximately 18 times as much economic power as Canada, a conclusion drawn from the division of Canadian gross national product into United States gross national product.

petition. Is it logical to throw Canada into the ring with a competitor whose per capita efficiency or income is one and a half times greater than Canada's efficiency rating? What would happen to her young industries? It can be readily seen that a customs union would have an adverse effect on the Canadian economy inasmuch as only a relatively few industries could compete with their American counterparts. For every industry that would benefit from such union, another, such as the garment and textile industry, would probably be forced out of the market. Likewise, it is considered that a customs union would help the Canadian farmer now, because of high prices prevailing in the United States for all they can produce. However, that same customs union, would in all probability work to their detriment when surpluses hit the United States market. Customs union in the immediate present therefore, might possibly work to the advantage of a large part of the Canadian economy, but eventually such union would entail drastic and far-reaching readjustments. Whether these readjustments would create a more stable economy and whether the strain of readjustment would be worth the results, is a debatable point, and will not be developed in this discussion.

Furthermore it is unlikely that such a customs union would be anything but an exclusive organization because of the traditional protectionist and isolationist tendencies of some American legislators. As a result therefore Canada would probably be cut-off from her time-honoured British sources of supply and in the long run such action would mean the death of Imperial Preference for Canadian products. With the death of such preference one of the main reasons for the rapid development of Canada would disappear. It has been stated that such preference has provided an added stimulus for the establishment of branch plants in Canada, and as for the effect of these branch plants on the Canadian economy....

> They have immeasureably speeded up both the volume and diversity of Canadian manufacturing, and greatly accelerated

the development of Canada's natural resources.(5)

It can be reasoned therefore, that a customs union with total elimination of tariff barriers, would be detrimental to the Canadian economy, in that industrial progress would be stifled, and also her young industries would be strangled through intense competition. Canada, being the decidedly weaker of the two competitors, needs a measure of freedom in tariff policy such as the United States exercised for nearly a century in competition with free-trade England. A union on this basis would be decidedly advantageous to Canada and also to the United States both in the short-run and the long-run perspectives. Canada would have to make use of her tariff freedom on occasion to further her competition with the United States, but that is to be preferred to import embargoes, quotas, and exchange controls involved because she cannot compete at all. In considering such a policy the United States must remember: (1) that in the split and troubled world which prevails today, Canada can no longer afford to buy $2 billion worth of goods from her and sell only $1 billion in return; (2) In the short term, Canada will be the United States' only major partner in supplying goods to Europe under the Marshall Plan, but not unless Canada overcomes her United States dollar shortage; (3) that in the long-run, a prosperous and steady Canada is important to the United States both militarily and politically; (4) and that Canada is her largest market and holds more than $5 billion of her investments, more than all Latin-America combined.

Whether the United States will respect such considerations from her position as the classic seller and non-buyer, is, a moot point. And also, on the other hand, despite the advantages that would accrue to Canada under such a customs union where she still maintained some measure of tariff freedom, there is the difficulty of traditional opposition to outright union with the United States whether economic or political.

(5). Commissioner, Combines Investigation Act, op.cit., p.42.

> There is a danger inherent in the fact that at present Canada's exports to the United States account for half our total export trade..... This gives our neighbour to the south an unduly large measure of control over our trade policies. (6)

Quite rightly, it is to be feared that a customs union would certainly transfer Canada's sovereign economic power from Ottawa to Washington. Crop acreages, for example, in time of emergency, would be determined for the whole continent, and determined in Washington.

It would seem therefore, that proposals for a customs union are deemed neither practical nor acceptable, such opinion being a throw-back to the reciprocity rejection of 1911, and also an opinion that could possibly live for years to come. A customs union then would not be the solution for Canada's balance of payments difficulties.

Past experience clearly indicates that the greatest contribution that the United States can make toward a large and stable flow in the supply of dollars - indeed, an indispensable one - lies in the maintenance of a high level of national income and production in the United States. Certainly if the United States economy, as the cornerstone of world prosperity, should ever crash again, the repercussions would be infinitely greater and more disastrous than those which followed in the wake of 'Black October', 1929. A major depression in the United States would not only topple that country into chaos, but would also profoundly affect all other countries. Conversely, if the United States free enterprise system has the brain-power and the will-power to use its human resources not only to survive, but even to flourish, it can bring a certain measure of global stability and peace to the world.

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(6). Plumptre, A.F.W., Chief of Economic Division, Canadian Department of External Affairs, address delivered in Toronto, as quoted in editorial in the Ottawa Evening Journal, 64th. year, no.29, issue of January 14, 1949, p.5. col.1.

What then are the prospects for continued United States prosperity - a prosperity that sees 60 million people employed at full time jobs, with national income around the $200 billion mark, with profits after taxes the highest in history, and with 7 percent of the globe's population apparently out-producing the rest of the world combined. First of all, over the short-run, the United States should maintain a certain high level of prosperity for at least another decade, but not that incredible prosperity that now exists. Such prospective prosperity does not mean that there will not be jars and bumps along the way, with some distress and unemployment during intervals of readjustment. The short-run prospects derive from three basic factors: (1) a generation of delay in industrial development in the United States; if the stagnation 'thirties' is combined with the seven years of war and its immediate aftermath, it is realized that the United States industrial plant has seventeen years of neglect for which it must make up; (2) the devastation of battle areas during World War II; the United States government will be spending about $5 billion a year to effectuate the Marshall Plan, and in addition it is expected that $1 billion more will be loaned by private institutions, especially to Latin America; (3) high-level federal and state spending; federal expenses are running at a rate five times as great as immediately before the war and constitute approximately nineteen percent of the total national income, or $40 billion.

Furthermore, over the long run, the United States economy will never again undergo a crack-up comparable in scope and impact to the one that began under the Hoover administration. Under the 'New Deal', a floor has been built under depression by a comprehensive system of economic legislation. Three major government props protect the United States economic system against its own blunders. First there is the guarantee to agriculture that price levels will be supported until 1949, a pledge that will undoubtedly be renewed for major farm commodities. Secondly, under federal supervision, funds for unemployment insurance have reached record size, and the purchasing power of the unemployed should never be completely wiped out as in pre-New Deal days. Thirdly, the United States Congress, through its Employment Act of 1946 has arranged to take up any appreciable slack in private employment through large scale public works and other programs.

Such precautions, as mentioned before, do not preclude a recession. The American economy continued to operate at a very high level of activity in 1948, with total physical output increasing between three and four percent over 1947.(7) As a result there was a better balance between demand and supply, and the sharp rise in the general level of prices and costs which had been under way since mid 1946 began to flatten out, with mixed price trends in evidence. Furthermore, in spite of the fact that the European Recovery Program was in operation, the rate of United States exports at the end of 1948 was about 20 percent lower in physical volume than it had been a year before.(8) As a result of the increased supplies in the domestic market therefore, sellers' markets prevailed in very few lines of business. This transformation from sellers'market to buyers' market is not unexpected, considering that industry has been operating at a high rate for over three years to fill the huge deferred demands that accumulated during the war. Competition is again coming into play, and while this process represents a return to normalcy, it will involve numerous readjustments in the business world, both in price and production, to prevent a recession.

On the whole however, the American economic outlook would seem to

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(7). <u>Annual Report to the Minister of Finance and Statement of Accounts for the Year 1948</u>, Ottawa, Bank of Canada, 1949, p.13.

(8). Id., ibid., p.16.

involve stability and prosperity with consequent benefits for Canada and the rest of the world. Canada would not be amiss therefore in constructing her industrial economy and trade pattern with a view to directing her export surpluses to the United States. However, those exports that do enter the United States market will do so at the discretion of the American business-man, so that Canada cannot look forward to the possibility of increased sales in the United States to completely solve her United States dollar problem.

CHAPTER VII

PROPOSED SOLUTION - FURTHER SELECTIVE EXPANSION OF PRODUCTION

Canada has launched a program to rectify her balance of payments difficulties, along the lines indicated in the previous two chapters. However to achieve a modicum of success in overcoming those difficulties, further measures are needed. In the breathing spell that Canada has now obtained in regard to the drain on gold and dollar reserves, she should expend every possible effort to effect a thorough revision of her economy; she must institute a careful and thorough overhauling of virtually every Canadian industry in order to accomplish the task of reducing her external vulnerability and thereby correcting the chronic maladjustment in her balance of payments position.

Such revision must be aimed at increasing domestic production and sterling imports to supplement and even displace imports from the United States, as well as to increase Canadian exports to the dollar areas.

The first general approach must be to pick out the fields that hold the most promise for such action. On the dollar-producing side of her foreign exchange difficulties, Canada can obtain important leads from examining the content and pattern of her main exports. In 1947, twenty-five items alone accounted for almost three-quarters of her total exports (including gold); of these, nineteen would require further processing, for example, wheat, wood, pulp, pulpwood, the base metals, asbestos, raw furs, etc.. In regard to such products, Canada should ask herself what further processing is done in the country of import, what prevents the sale of finished products there, and whether such processing is in fact feasible in Canada. And in answer thereto, Canada should institute an intensive research program which would be designed to guide her in her ventures along this tortuous and rock-strewn path. Further in regard to the United States market, Canada must know what proportion of the finished product is retained therein and not re-exported, for Canada should not give up a cash market for raw materials in exchange for a soft currency market for finished products.

However, the most important field for investigation is to be found in the dollar-saving or demand reducing side of her foreign exchange difficulties. There are a number of major Canadian imports from the United States which most certainly can be displaced to varying extents by the more intensive use of Canadian natural resources. Canada can and does produce large surpluses of many agricultural products, forest products, mineral products, and hydro electric power, with the allocation of less capital and labour than other countries. Such production of volumes over and above domestic consumption not only implies exporting, but also, on the other hand, implies importing. Her place of importance depends upon full utilization of these specialized resources, and on trading them to the best advantage in order to acquire the materials that she lacks or does not herself produce. In this respect, she considers that she cannot produce or is at a disadvantage in producing her own requirements of such essential raw materials as iron, coal, oil, rubber and tin, the production of which is based on special local resources and techniques. Every country can, of course, display a list of surplus and deficit resources, but in few will both sides of the balance sheet contain such basically important products in such volume, and in few would the extremes be so great. It is in this distribution and peculiar nature of Canada's resources and lack of resources that can be found the explanation for her internal economic instability, her external economic vulnerability, and most important for this discussion, the underlying cause of Canada's present international payments difficulties. That is to say, Canada's exchange problem is reflected in her industrial production and pattern of foreign trade. Inasmuch as the difficulties are created and fostered thereby, investigation must be directed thereto in order to find a lasting solution to the chronic maladjustment in Canada's balance of payment position vis-à-vis the United States.

As indicated in Table IV, page 24, the greater proportion of Canadian imports over the years 1886-1948 have come from the United States. From the following table the content of this import trade can be readily viewed.

TABLE VIII (1)

Canadian imports by main commodity.
(thousands of dollars)

Commodity	1938	1946	1947	1948
Crude Petroleum	40,972	89,471	127,459	191,980
Coal	35,826	120,354	138,950	186,388
Other non-farm Machinery	23,238	104,642	155,399	159,031
Farm Implements and Machinery	2,320	68,352	105,405	139,943
Petroleum Prod.(other)	14,635	34,272	29,735	109,802
Auto Parts	24,722	66,453	98,432	101,261
Rolling Mill Products	25,470	53,376	77,970	83,929
Cotton Prod.	16,298	74,761	119,413	75,518
Sugar and Prod.	20,581	39,879	57,420	71,752
Wool Prod.	15,547	34,744	54,293	67,322
Electrical Apparatus	13,054	47,788	68,773	62,127
Fruits	20,948	95,496	77,477	59,561
Cotton, raw and linters	13,237	44,397	60,481	56,829
Iron Prod.(Other)	15,944	43,851	61,558	55,850
Engines and Boilers	7,789	29,462	43,882	50,285

(1). Foreign Trade, Department of Trade and Commerce, Foreign Trade Service, Vol.III, no.59, Ottawa, Feb.14,1948, p.308, and, Vol.V, no.112, Ottawa Feb.19,1949, p.371.

Crude petroleum, coal and iron products are the commodities that Canada imports in largest volume. What are the prospects of increasing domestic production in these materials in order to supplement or even displace imports from the United States? Is Canada endowed with resources that would make such production economically justifiable? Are there any alternative sources of supply?

1. Petroleum and products.

Canada consumes petroleum products at the rate of over 250,000 barrels per day, with her indigenous production of crude oil averaging less than 10 per cent of this amount over past years,[2] - a situation that indicates vast imports, and great need for United States dollars. To make matters worse, it is estimated that the demand for petroleum products in Canada will reach 350,000 barrels per day before 1955, about 350 gallons per capita per day.[3] Will the drain on Canada's holdings of gold and United States dollars be continued or further increased in respect of petroleum imports?

In order to answer such a question it will be necessary to review the past, present and future indications of Canadian oil production. It is estimated that some 15 percent of the total area of Canada offers prospects for oil discovery.[4] As a matter of fact the largest potential oil area in the world is situated in the Canadian Prairie Provinces according to expert

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(2). Hewetson, H.H., President, Imperial Oil Limited, National Aspects of Oil Development, address before the Canadian Club, Toronto, December 6, 1948.

(3). Id., ibid.

(4). Financial Post, Survey of Oils Canada 1949, Volume VII, Toronto, Maclean-Hunter Publishing Co., Ltd., 1949, p.25.

geologists. Known as the 'Columbia Pool', surveyed by the Canadian and United States Governments as early as 1880, this area extends up from Montana and the Dakotas, its demarcations running on its eastern boundary near Brandon, Manitoba, in a north-westerly direction to Lake Athabasca and covering the entire area west of this to the foothills of the Rockies.(5) Along the Athabasca River alone, Canada has by far the greatest potential oil field in the world. It is said that Canada could produce from there one hundred billion barrels of oil, and United States geologists have put the figure at two hundred and fifty billion barrels of oil.(6) The oil resources referred to are locked in Alberta's oil sand deposits in the McMurray area north of Edmonton, but as yet no economical method of extracting this oil has been discovered. However, research scientists are at present working on a solution to the problem, - the employing of bacteria to strip the oil from the grains of sand, which is more than likely to succeed.(7) Nevertheless until that time, production of natural petroleum will remain the cheapest means of securing oil products.

In respect to the Canadian production of natural petroleum, this 'Columbia Pool', has turned in many wells. The first and one of the most important was the producing field of Turner Valley, which, in past years, accounted for most of Canada's oil production. In 1945 Alberta produced 94 percent of all oil produced in Canada, and the Turner Valley development, which in turn produced by far the great bulk of Alberta oil, raised Canada to the status of the second greatest oil-producing country in the Commonwealth.(8)

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(5). Total War and Defence Bulletin, The Largest Potential Oil Area in the World, Bulletin no.18, December 1, 1941, Regina, Dominion Headquarters, Total War and Defence, 1941, p.1.

(6). MacNicol, J.R., speaking on The War before the Canadian House of Commons, November 10, 1941, Hansard, Vol.IV, 1941-42 session, Ottawa, King's Printer and Controller of Stationery, 1947, p.4213.

(7). Sanburn, R., Canada May be World's Number One Oil Country, article in the Ottawa Evening Citizen, 105th. year, no.23, July 26, 1947, issue, p.1.col.8.

(8). Canada's Oil Future, editorial in the Ottawa Evening Citizen 98th year, no.299, Up to 1946, after being in production for 31 years, Alberta's Turner Valley had produced some 83 million barrels of oil, (9) but unfortunately in recent years, the average annual output has begun to decline. However, just at the time when Alberta's future as a major source of oil began to darken, - and this in contrast to the world trend in oil production which during the war years climbed steadily to new peaks, further startling developments have taken place in Alberta's oil potential which make that province the talk not only of Canada but of the entire oil world.

The boom started on February 13, 1947, at Leduc 19 miles south of Edmonton on the highway to Calgary (10) when Leduc no.1 was brought in. The rate of flow of this first well was 39 barrels an hour, making that well the most important ever discovered in Canada outside of Turner Valley. A second well had been started February 12, one and one-half miles southwest of the first hole, and came in two months later with an oil flow three times as high as the first well. A new area had been discovered and since that time numerous additional projects have been successful in that area. With great regularity one can read about the location and / or completion of well after well in the proven area of this field, and by the end of 1948, approximately 200 wells were producing in this area alone. (11)

Another area of production is also bustling with activity. The Lloydminister - Lone Rock field on the Alberta-Saskatchewan border about 140

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(9). Ibid., p.30.

(10). Young, Scott, Pay-off in Oil, Article in MacLean's Magazine, June 15,1947, Toronto, Maclean-Hunter Publishing Co., Ltd., 1947, p.7.

(11). Oil in Alberta, editorial written for the Lethbridge Herald, reprinted in the Ottawa Evening Journal, 64th. year, no.2, issue of December 8, 1948, p.4, col.4.

miles east of Edmonton was discovered in 1934, but it was 10 years before a good well came in. In 1944, 6,300 barrels were taken from 112 wells; in 1945, 20 more wells were drilled and production rose to 44,800 barrels; and in the first 10 months of 1947 the field turned out 617,638 barrels.(12) In the 1200 square mile area explored in 1947, the limitation of the field had not been reached; of the 129 wells drilled between Jan.1 and Sept.30, 1947, only 15 were dry holes(13). Here then is another source of oil for Canadian consumption.

However, in addition to the oil fields noted above, other areas have been discovered and are being explcited. Alberta has producing fields all the way from Redwater, 35 miles northeast of Edmonton, to Taber and Conrad, east and southeast of Lethbridge, together with a vast storehouse of natural gas and oil potential in the proven southeast plains and in the giant Pincher Creek field.(14) Moreover, there is little doubt that through diligent efforts of the oil prospectors, Western Canada will unfold further substantial resources of crude oil and natural gas.

In regard to markets for this new found oil supply, several factors are to be noted. Firstly, the increased supply and the nearness to consumers has resulted in price reductions. Previous crude oil prices, which reflected in large measure the high cost of importing crude oil from distant United States sources, have been reduced by 52 cents a barrel in the Edmonton field and 43 cents in the Turner Valley field,(15) and proportionate price reductions dependent on the cost of transportation have been applied at practically all

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(12). Canadian Oil Find, article in Business Week, no.956, issue of December 27, 1947, McGraw-Hill Publishing Co.Inc., Albany, p.77.

(13). Ibid., p.77.

(14). Oil in Alberta, loc.cit.

(15). Hewetson, H.H., loc.cit.

points in Alberta and Saskatchewan. As a result of these price adjustments, Alberta production is able to compete successfully with present United States economic sources of crude oil wherever supplies from those sources impinge on the prairie market. For instance:

> Alberta crude will now be able to compete at Winnipeg. Before the price adjustment, the laid down cost of Alberta crude at Winnipeg made it non-competitive with economic United States sources. (16)

Furthermore, it is believed that reduced crude (partially processed at Edmonton), can be moved by rail to British Columbia and thereby displace some supplies that are now coming in from California. A similar procedure could in time further extend the market in Manitoba and North-western Ontario, where Alberta production would then compete with United States mid-continent crude and products, and products of South American crude. As a matter of fact this latter spread would seem to be assured. The Imperial Oil Company has committed itself to the construction of a 16 inch pipe line from Nisku (near Edmonton) to Regina, which is expected to be completed in 1950. Such action will move the Alberta oil fields somewhat nearer to new markets because it will enable production to reach those markets at transport costs considerably lower than if it were moved all the way by rail. Such development is the normal result of increased supply and it is to be expected that future developments will warrant construction of pipe lines all the way to the head of the Great Lakes.[17]

Such steps to extend the Alberta crude market are desirable in the interests of the general economy as well as the producer, because every barrel of United States crude replaced by indigenous crude represents a saving varying

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(16). Id., ibid.

(17). Id., ibid.

from $3.00 to $5.00 in United States funds, depending upon the point of replacement and existing competitive conditions. The direct supplying of Alberta production to economically accessible markets in the Prairie Provinces has already considerably reduced the drain on Canada's gold and dollar reserves, because that section of the country is now virtually self-sufficient in crude oil and its products. The oil development of Western Canada is of national importance from another point of view also. Canada's largest oil consuming areas are located in Eastern Canada - in Ontario and Quebec, and are at present supplied by importation of United States mid-continent products. The cost of transporting Alberta products to this market would apparently be economically inadvisable at the present time, but another solution is at hand which will prevent the continuing drain of gold and dollars occasioned by these imports. There is sound prospect that Eastern Canada can be indirectly supplied by Canadian oil resources; Alberta crude oil will be exchanged at points in the Central or Western United States for crude that could be delivered to Canada's eastern refineries via the United States gulf ports or from South America. In this way it is envisaged that the drain on Canada's gold and dollar reserves as a result of petroleum imports will be completely relieved in years to come.

The search for oil reserves should and will be continued past the point where enough oil has been discovered to make Canada self-sufficient. For the benefit of the national economy, Canada should anticipate not only exporting oil from the West in exchange for oil that she is now drawing from dollar countries for her eastern refineries, but also, she should plan to eventually become a substantial net exporter of oil. While the United States is now substantially in balance of production and consumption the view is held that she will become a net importer of petroleum, and will grow increasingly

(18). Id., ibid.

dependent upon imports. If Canada can become competitive, and in all probability she will, she should be able to supply some of these imports just as the United States supplied her during so many years. There is then the prospect, in regard to petroleum, of augmenting her gold and dollar holdings rather than just arresting the drain that has taken place in years past.

2. Coal and products.

The sight of long trains of coal laboriously winding their way northward from the Pennsylvania coal-fields to Canada would apparently justify one in the assumption that Canada is deficient in coal resources. Nothing, however, could be further from the truth. As a matter of fact, Canada, in magnitude of coal reserves, is the second country in the world (next to the United States) and the first in the Commonwealth.(19) Canada is estimated to possess about 90,000 million tons of mineable coal and some 49,000 tons of recoverable coal.(20) It cannot be gainsaid that when coal resources were being given out, nature dealt to Canada with a lavish hand.

And yet Canada imports coal in large quantities. She is peculiarly dependent on the coal fields of the United States for this commodity, so vital for domestic heating in a rigorous winter climate and so necessary for industrial development in any country. Why such an anomaly? Why these large imports when there are abundant supplies of coal in Canada? The answer is simple and easily understandable; Canada must make such large importations because her own deposits are located far away from her large coal-consuming centres of population. This geographic fact is the root of the Canadian coal problem. It

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(19). Nova Scotia Coal Comes into its Own, Article in Industrial Canada, Vol. XXXIV, no.8, December, 1933, The Canadian Manufacturers' Association, Toronto, p.19.

(20). Report to the Royal Commission on Coal, 1946, Ottawa, King's Printer and Controller of Stationery, 1947, p.11.

is cheaper and more convenient to import coal from other countries than to pay for the long haul from her own coal-fields. Canada's coal problem then, in the final analysis, is not one of supply but of distribution.

Canada's principal coal-fields are in Nova Scotia (3 percent of total) Alberta (48 percent) and British Columbia (19 percent), on her eastern and western extremities, whereas the manufacturing and commercial provinces of Ontario and Quebec are centrally located. And as if this geographic handicap to national self-sufficiency in coal were not enough, there has been added another: - the Ontario peninsula, which is the most highly industrialized section of Canada, is thrust southward almost into the large coal-producing area of the United States, with which it is connected by numerous, well-organized and highly efficient lines of transportation. Consequently, in the matter of freight rates as in that of distance, coal shipped from the adjacent United States possesses a decided advantage over that from far-off Alberta and Nova Scotia. Furthermore, unlike the United States, Canada is deficient in anthracite, although reserves of seim-anthracite are known to exist in Alberta and British Columbia.

On the other hand, Canada has enormous reserves of bituminous and sub-bituminous coal. These reserves are located for the most part in the Western interior, although there are important fields also on both coasts. On the Pacific Coast, bituminous coal is extensively mined for power production, manufacturing, and for railway and marine transportation purposes, as well as reduction of mineral ores and domestic heating. In fact a portion of the output is exported to the United States. The extensive coal fields of Alberta which contain coal of a wide range of character, form Canada's largest and most important coal reserves. At the present time, the largest market for Alberta coal is found in the prairie provinces. Only a relatively small proportion of the output is exported to the adjoining northwestern states. The Alberta fields supply the domestic and industrial needs of Alberta, Saskatchewan and Manitoba, as well as fuel for railway locomotives throughout these provinces. However in Manitoba and especially in Winnipeg, keen competition has been met from United States anthracite and bituminous. On the Atlantic Coast the Nova Scotian deposits contain only a small proportion of the total Canadian reserves. This proportion however is not a true index of their importance; their distance from other coal-fields, their proximity to large deposits of iron ore, their nearness to important centres of population, and their location on the seaboard, as well as the uniform and good quality of the coal produced, combine to give them an economic significance that their extent alone would not justify. The Nova Scotian mines supply the domestic fuel and industrial needs of the province, and normally over 50 percent of the output is consumed locally in the iron and steel industry. Moreover, these fields are located at the entrance to the St. Lawrence Waterway and cheap water transportation facilities are thus afforded into the centre of Canada, resulting in a large coal trade being built up to serve the territory as far east as Montreal.

The securing of a place in the markets of Central Canada by Nova Scotia Coal is entirely a matter of price and competition with the well-organized bituminous coal industry of the United States. It is a very debatable question whether Canada can supply the coal-less provinces of Ontario and Quebec with fuel from her own mines. Indeed it is not altogether a foregone conclusion that such a consummation is economically desirable. Certain efforts have been made in the past to develop at least a measure of national self-sufficiency in fuel. On March 31, 1924, the following resolution was passed by the Canadian House of Commons:

> That in the opinion of this House, the time had arrived for Canada to have a National Policy in relation to its coal supply and that no part of Canada should be left

> dependent on the United States for such supply. The Government should immediately consider the institution of an all British and Canadian coal supply, and that such a policy is both a social and economic necessity and in the best interests of the future of Canada. (21)

Pursuant thereto, the Dominion Government undertook to grant extensive transportation subventions for coal shipped to points in Ontario and Quebec where competition existed with United States Coal, together with other marketing subventions. The following table will give a summary of the assistance extended coal industry by order-in-council and statute for the years 1928 to 1944.

TABLE IX (22)

ASSISTANCE EXTENDED CANADIAN COAL INDUSTRY BY ORDER IN COUNCIL AND STATUTE

	Tons	Amount
Assistance by Order-in-Council:		
Nova Scotia Coal	21,220,370	$25,099,528.00
New Brunswick Coal	292,960	223,329.30
Alberta and Eastern British Columbia Coal	6,229,790	10,259,416.46
Saskatchewan Coal	1,314,729	440,393.35
B.C. Export and Bunkering Assistance	1,726,659	1,252,562.71
	30,784,508	$37,275,229.82
Assistance by Statute		
Domestic Fuel Act.(1927) Chapt.52	634,660	632,113.73
Coke Bounties Act.	7,247,834	3,587,688.40
	38,667,002	$41,495,031.95

(21). Id., ibid., p.565.

(22). Id., ibid., p.565.

And still another measure was employed to aid the Canadian coal producers in their competition with the United States: the imposition of tariff duties. The varying rates for the period 1907 to the present are shown in the following table.

TABLE X (23)

Tariff duties applicable to coal imports into Canada (1907-1946)

	Anthracite		Bituminous		Coke	
	U.K.	U.S.	U.K.	U.S.	U.K.	U.S.
1907-22	Free	Free	35	53	Free	Free
1923-24	Free	Free	35	53	Free	Free
1925-30	Free	Free	35	50	Free	Free
1931	Free	40	35	75	Free	$1.00
1932-39	Free	50	35	75	Free	$1.00
1940	Free	50	Free	75	Free	$1.00

In the past, however, such measures have not been sufficient to produce that self-sufficiency advocated by the Canadian House of Commons in 1924. As a matter of fact, to achieve independence at the 1945 level of consumption, Canadian mines would have to produce 43 million tons of coal annually, an increase of 27 million tons over their production in 1945.(24) Assuming that Maritime production could make available for Central Canada 5 million tons of coal, which is unlikely, - highest production over the past 20 years was 8,500,000 tons-, it would be necessary to provide over 20 million tons from Western sources. From the point of view of coal reserves this is feasible, but the cost of moving the coal however, would be very large indeed, with

(23). Id., ibid., p.565.

(24). Id., ibid., p.582.

the laid-down cost of the coal in Central Canada being in the neighborhood of $5.00 a ton more than that of imported coal. Such a situation would necessitate subventions amounting to approximately $100 million annually in respect of Western coal alone. Independence may be physically possible, but at the present time it is too impractical to merit further attention.

There are ameliorating factors to be considered nevertheless. Industry requires energy for three principal purposes - for power, for process heating and for space heating. In recent years and in years to come, power needs will be met more and more by water-power; in the field of process heating, coal has faced strong competition and will face still stronger competition from both water-power and petroleum; in space heating also, there is a substantial and expanding use of petroleum products.

Canada is already a large consumer of hydro-electric power, by any standard. As for potential, it is believed that if account be taken of availability of power resources to existing markets, Canada is outranked only by the United States in potential resources.(25) Many projects are being developed to take advantage of these potential resources. It is estimated that by 1951 there will be almost 1 million additional horsepower generated along the Ottawa River by the Hydro-Electric Power Commission of Ontario alone. This additional power will be drawn from the : (1) Stewartville Plant on the Madawaska River-78,000 horsepower; (2) Des Joachims project on the upper Ottawa River-480,000 horsepower; (3) Portage du Fort plant on the upper Ottawa River-160,000 horsepower; and (4) La Cave project on the upper Ottawa River-240,000 horsepower. This same provincial agency has also other projects under construction in different parts of the province. At the Aquasabon plant in the Northwestern Ontario Thunder Bay district, it is expected that 53,000 horsepower will be generated, and, on the Mississauga River in the same general district, it is

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(25). Id., ibid., p.381.

expected that a project now under construction will yield 58,000 horsepower by the end of 1949. Moreover the hydro-electric potential of the province of Quebec is also being developed. One of the biggest hydro-electric producers in that province is the Shawinigan Water and Power Company which has almost completed the construction of a project at Shawinigan Falls which will add another 195,000 horsepower to its producing capacity, and bring the company's output up to 489,900 horsepower. Moreover, the company has also commenced preliminary construction work for a 384,000 horsepower plant at the Trenche site on the upper St. Maurice River which should be operating early in 1951. Other power companies in Quebec are also expanding. One of the most recent to undertake construction work was the Gatineau Power Company with a proposed 27,000 horsepower project below Rocher Fendu on the Ottawa River.

It is to be noted that in recent years both domestic and industrial demands for hydro-electric power have increased tremendously, and that therefore the power generated as a result of the above projects will make less than comparable pre-war inroads into the moneys expended for coal importations. However, the proposal that New York State and the Province of Ontario proceed jointly to develop the 2,200,000 horsepower potential of the international rapids of the St. Lawrence River near Cornwall, should be a decided factor in reducing industrial power and heating dependence on United States coal. This power phase of the St. Lawrence seaway and power project is most certainly a necessity and would appear to be well on its way to the mutual approval of both Canada and the United States. The whole scheme has been before the Canadian Parliament and United States Congress on various occasions over the last 50 years, but it was not until 1940 that an agreement to proceed was signed. This agreement has not as yet been ratified by the respective governments, but same should be forth-coming in the very near future.

It is to be considered therefore that the Canadian problem regarding power and heating for industrial purposes in Central Canada, will be greatly alleviated and could possibly die a natural death as the uses and possibilities of hydro-electric power and petroleum energy become more widely known, and as development of these resources is increased. In regard to domestic heating, however, moreso than industrial uses, Central Canada especially Ontario, has been markedly dependent in the past on the United States for its supply of heat energy. Moreover, the coal-consuming public of Ontario has become so prejudiced in favour of United States anthracite that it has been a matter of some difficulty to secure a fair trial for substitutes. More than 90 percent of the anthracite imported into Canada has entered the retail trade in Ontario and Quebec.(26) The following table will show the total Canadian anthracite imports by country of source in thousands of net tons.(27)

TABLE XI

Canadian Anthracite Imports by Country of Source
(thousands of net tons)

Calendar Year	Total Anthracite Imports	United States	United Kingdom	Russia	Germany	All Oth
1922	2,694	2,514	180	-	-	-
1928	3,737	3,203	526	6	-	1
1938	3,724	1,977	1,199	15	411	121
1944	4,413	4,195	218	-	-	-
1945	3,411	3,383	28			

In the past few years the situation has become even more serious. From the foregoing table it can be seen that imports from countries other than the United States have considerably fallen off - a fact which has further increased Canadian dependence on United States supplies. Furthermore, this dependence is

(26). Id., ibid., p.428.

(27). Id., ibid., p.428.

strengthened by the fact that Nova Scotia coal can no longer compete effectively with United States coal up to and including Montreal, because of higher transportation costs.

However, it is to be considered that Canadian difficulties in regard to coal are now at an all-time high, and that the tide will soon turn to create an altogether different situation. Firstly, constantly recurring interruptions in the anthracite supply, due to labour troubles and transportation tie-ups, together with the increasing price and the deteriorating quality of this fuel, are having their effect. The coal-consuming public of Central Canada are becoming more and more amenable to substitutes for United States anthracite. Secondly, with the completion of the St. Lawrence seaway project, many seagoing ships will be able to proceed to upper lake ports without trans-shipping charges. Inasmuch as a sizable amount of coal was imported from Great Britain and Europe prior to World War II, it is to be hoped and expected that resumption of that movement will be possible in the years to come, and the proposed deepening of the St. Lawrence system will enable such movement to be extended to ports on the Great Lakes. Similarly Nova Scotia coal water-borne to Montreal has also had to be trans-shipped for westward furtherance, and development of the waterways would make it physically possible for much larger boats to move directly from Sydney, Nova Scotia, to any port on the Great Lakes. Furthermore, there is a serious movement afoot to have the Nova Scotia coal industry re-organized to cut production costs and in this way increase effective competition with United States imports. However, a third factor, and the most promising for reduced dependence on United States supplies, is the advent and increasingly wise-spread use of petroleum and its products. More and more consumers are turning every day to the use of this product for domestic heating, and, as previously mentioned in this chapter, it is to be considered that the volume of this product which Central Canada imports from the United States will be at least balanced by Western Canada exports to the United States. Another factor should be at least mentioned although it is of little practical significance in facing present day difficulties, but nevertheless a factor which holds boundless possibilities for the not too distant future. This is the creation of atomic energy, for which Canada is well supplied with raw materials. In regard to the development of this power for peacetime uses, it is to be noted that the period before practical use will vary directly with the amount of money and effort which the nations of the world will be prepared to devote to research in peacetime, as contrasted with the amounts devoted to war-time development. Nevertheless, Dr. C.J. Mackenzie, President of Canada's National Reasearch Council, has estimated that in twenty years time, the costs of atomic power will possibly begin to approximate coal or hydro electric power.(28) Under the stimulus of such statements one can begin to envisage vast and drastic developments, not the least of which is national self-sufficiency in regard to fuel.

The Canadian problem to be solved in developing at least a measure of national self-sufficiency in fuel is, the supplying of the acute fuel areas of Ontario and Quebec. With Federal subventions to Nova Scotia and Western products, with the probability of a deeper St. Lawrence Channel from Montreal through the Great Lakes, with the use of coal products from sources of supply other than the United States, with the factual and potential increase in the supply of hydro-electric power and petroleum production, it should be considered that coal importations to this area from the United States will, in the not too distant future, constitute a smaller and smaller drain on Canadian holdings of gold and United States dollars. Canada should be enabled as the years

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(28). Id., ibid., p.415.

roll by to develop a greater and greater degree of national self-sufficiency in fuel and thereby eliminate one of the major elements in her present day balance of payments difficulties vis-à-vis the United States.

3. Iron and products.

Another important element in Canada's adverse balance of payments situation vis-à-vis the United States has been her sizeable importation of iron ore and its products from the United States. Even though Canada's iron and steel mills operated at near capacity in 1948 and produced record tonnages of steel, pig-iron and ferro-alloys, Canadian imports of iron ore and its products ranked third in value of all imports in that period. Preliminary figures for the year 1948 place the year's output of steel ingots and castings combined at 3,202,000 tons, well above the preceeding year's total of 2,945,000 tons, three percent higher than the war-time peak of 3,110,000 tons in 1942, and 1,908,000 tons higher than the 1938 output.(29) Steel is the basic factor in a modern industrial economy, and the progress of Canadian industrialism is dependent to a great extent upon external purchases of this product. Therefore, not only does the lack of domestic production of steel retard Canadian industrialism by making that industry subject to decisions and supply outside of Canada, but also the imports that she is allowed to make adversely affect her balance of payments position. Is there any alternative to such a situation? Can Canada import from other sources, or can she become self-sufficient?

Canada does possess vast resources of mineral wealth which are of tremendous economic and strategic significance. These reserves gain added

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(29). Monthly Report on Primary Iron and Steel in Canada - December 1948, mc 28-15-2-49, Department of Trade and Commerce, Dominion Bureau of Statistics, Mining Metalurgical and Chemical Section, Ottawa.

value in a strategic sense from their location adjacent to American demand and in the face of the drain on American domestic supplies associated with the war effort. Included in this category is the Canadian potential supplies of iron ore which may well replace the present United States Mesabi Range as a source of North American iron ore. United States Government experts calculate that, between 1941 and 1945, the United States consumed about seven percent of her commercial iron ore reserves, and also, that the fabulous Mesabi Range in Minnesota may begin to play out in ten years (30). This could be one of the reasons from the United States point of view, for the proposed reduction in Canadian imports of United States steel, - the other being the growing shortage of steel in that country as the result of military defence orders placed with American steel mills. If Canada did not possess potential reserves, such a situation would portend serious difficulties for Canadian industry.

When Dominion Geologist A.P. Low spoke about the vast iron ore riches in the trough straddling the border of Quebec and Labrador 50 years ago, Mesabi was just coming into its own, and nobody was interested in a sub-arctic wilderness. But as war demands cut deep into Mesabi, and as electric shovels began to scrape the bottom of some of the richest basins of ore, definite changes were made in the attitudes towards Labrador's possible reserves. By 1948, the engineers of interested companies had already proven the existence of 300,000,000 tons of iron ore in a area about one square mile, with thousands of square miles of territory still to be explored (31).

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(30). Lucey, Charles T., The War's Havoc of Our Natural Resources, article in the Reader's Digest, Vol.47, no.824, issue of December 1945, The Reader's Digest Association (Canada) Ltd., Montreal, p.75.

(31). Ungava Iron Program Costs $200,000,000, article in the Ottawa Evening Journal, 64th. year, no.57, issue of February 16, 1949, p.34, col.6-7.

In this Quebec-Labrador area, exploration already completed discloses that the productive zone is 90 miles long by 4 miles wide and so far unexplored at both ends. Mesabi by comparison has a mining area of about 75 by 4 miles after 50 years of drilling (32).

Such potential reserves are a good starting point when contemplating commercial production, but the ore is still a long way from being the steel which it ultimately will be. There are railways to be built to the St. Lawrence at Seven Islands where it is ice-free about 10 months out of the year and which can be kept open all winter by means of an ice-breaker. The survey of this 350 mile route was first begun about 3 years ago and will be finished in 1949. The route involves certain big rock cuts, one major bridge 250 feet long, and one tunnel about a mile long, with an estimated cost of $100 million to build and equip (33). It is hoped to complete such a project within three years after the initiation of construction. The next step is the development of hydro-electric power, and Labrador and Quebec have large amounts of such undeveloped facilities. For example, within 7 miles of the main operations base at Knob Lake there is the Eaton Canyon 350 foot waterfall with its 500,000 horsepower potential for a power source (34). Initial development on this site will be 40,000 horsepower, with another 1,500,000 horsepower available for development only 130 miles away (35). The entire project is being developed by the Labrador Mining and Exploration Co. Ltd., chartered by Newfoundland, and the Hollinger North Shore Exploration Co. Ltd., with a Canadian charter.

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(32). Id., ibid., p.34.

(33). Northern Mesabi, article in Time Magazine, Vol.LII, no.16, issue of October 18, 1948, Chicago, Time Inc. 1948, p.20.

(34). Id., ibid., p.20.

(35). Durrell, W.H., General Manager, Labrador Mining and Exploration Co.,Ltd., address before the Toronto Board of Trade, as reported in the Ottawa Evening Journal, 64th. year, no.32, issue of January 18, 1949, p.7, col.3-4.

Both companies are controlled by the Hollinger Consolidated Gold Mines and M.A. Hanna Co., of Cleveland.

Present plans are to start production at a rate of 10,000,000 tons per year, with the expectation that the company will be turning out 20,000,000 tons a year within three years after the mines are opened. It is estimated that construction will be completed and production initiated in five years - four if there were an emergency. The volume produced can move, and no doubt eventually will move to four destinations: (1) to the steel industry in Nova Scotia which badly needs the help that relatively cheap high grade ore can give it, and which should have first call upon production; (2) to the Atlantic Coast steel industry of the United States with a potential market of 1 million tons; (3) Across the Atlantic to England and other European markets; (4) Up the St. Lawrence and the Great Lakes into markets now fed from Mesabi.

The latter deems fair to become Canada's largest market, unless of course the Canadian steel industry undergoes a vast expansion. Such a course is quite possible inasmuch as Canada's Trade Minister Howe has often reiterated in the past year that new emphasis will be placed on domestic steel production. However he has not gone so far as to say that a new national policy on steel was forthcoming, and unless such action were taken, the Canadian industry would still be at a decided disadvantage in open competition with the United States, at least for a number of years to come. Furthermore, the Canadian population would have to increase to about 30 million to absorb the products resulting from a raw material production of 10 million tons. In general however, the economic trend in iron ore production in the Western Hemisphere seems to favour the Labrador enterprise. United States reserves are dwindling, although there is still in excess of 1 billion tons of direct shipping, good-grade ore, and billions of tons of low-grade ores known as taconites, in the Mesabi deposits.[36]

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(36) Id. ibid. p. 7

But, with an annual production of 96 million tons, and with the greater proportion of this output taken from these deposits, the United States high grade iron ores will be exhausted in the forseeable future. In regard to Mesabi taconite it is to be considered that as long as direct shipping high grade Canadian ore is available, no serious threat will be made to the Canadian position on the United States market. To some extent, the United States already depends on overseas ore, - on the tremendous tonnages of high grade ore in Brazil, Venezuela and Chile which can be laid down in the United States at competitive prices. These imports go chiefly to the industries around Wilmington and Philadelphia on the Atlantic coast and up into the Pennsylvania coal country on the east of the mountains. As the Mesabi ore is eaten up, this dependence becomes greater and greater, but it is understood that steel operators would much prefer to take ore from the Canadian location because of the vulnerability of the aforementioned long open sea route in time of war.

Canadian ore from Labrador can move to blast furnaces on the American continent either over inland waters or down a relatively short and well protected strip of the Atlantic coast. From the strategic point of view it is indeed well placed. But from the economic point of view there is a certain disadvantage- the freight cost factor. Associated with this problem, and more or less vital to it in the next two decades, is the Canada-United States seaway plan for the upper St. Lawrence, a transportation and power project to bring ocean-going ships into the Great Lakes. With the completion of the proposed project, ore could move up the river and the Great Lakes in big ships- as big and as economical as those that now carry the Mesabi ore down. Without the Waterway, Canadian ore could not at present compete effectively with the Mesabi ore in the middle west, and would not be able to do so until the Mesabi product is worked down to a lower grade than is coming out at present. But even if the Waterway project were never implemented, Labrador economics would still look good. It is estimated that, without the Waterway, Labrador ore could be delivered in Pittsburgh at $8.25 per ton compared with $8 for lower-grade Mesabi ore which is almost certain to go on climbing in price (37).

However, even without a market in the Middle West of the continent, the earning power of Canada's new mineral development would still be very large. Iron ore at present sells for something like $6.50 to $7. a ton on the Atlantic coast, and the sale of any portion of her output would mean a very acceptable addition to her earnings of United States dollars. In such a restricted market Canada needs turn to another measure, as a matter of fact, a measure that Canada should implement in any event. That is, electric smelting of mineral ores. In the past and to a great degree of the present, iron and coal together have meant steel. But, because of the greater cost of transport,

coal almost always sits still and waits for the iron to travel to it. For example, coal underlies the industrial life of the American middle west; and into this pocket of coal on the earth's surface has poured the Mesabi iron. Similarly, in Nova Scotia the coal is local and the ore imported, - low grades from the Wabana deposits in Newfoundland and the necessary higher grades from the United States and overseas. The prospect of transferring Labrador iron ore to Nova Scotia for smelting is feasible, practical and probable, but experiments with electric smelting should be followed up to enable processing of the overflow that the Nova Scotia mills cannot take. With the almost unlimited water-power reserves located in North Eastern Canada, proven through land

(37). Labrador Iron of a Richness Called Fabulous, article written for the Toronto Financial Post, reprinted in the Ottawa Evening Journal, 63rd. year, no.246, September 30, 1948 edition, p.4, col.4-5.

and air surveys, electric smelting would be a much more economical process in the long run of reducing the iron ore to pig-iron. The Tysland-Hole and the Viberg processes have already been tried and tested and are already in use in some smelting plants. With such successes to show the way, some consideration should eventually be given to smelting at least some of the Canadian iron ore by electrical processes.

It is to be considered however, that the mid-west American markets will eventually be open to the Canadian supply of iron ore. In such an event, the 20 million-ton-per-year objective of the Labrador project will earn Canada $1\frac{1}{2}$ to 2 times as many United States dollars as her entire gold mining industry (38). Such an income would be a tremendous factor in the fight to reduce Canada's serious foreign exchange deficit vis-à-vis the United States.

4. Considerations-from a regional and national point of view.

From a regional point of view, the developments in iron and oil in Canada will provide untold benefits to the local inhabitants. Firstly these developments, when operating at or near capacity will result in the creation of activity that will be so necessary in the days to come, when the issue will be, not to secure sufficient labour, but to secure sufficient jobs for available labour. For example, oil is going to bring industry to Alberta. That province is going to be an industrial province in spite of what seems to be an unwillingness of secondery industries, at present, to establish anywhere in Canada except the Central Provinces. Oil is the lodestone which will bring them, and then will come the development which Alberta's other great sources of energy can assist - her coal and natural gas. And just to make assurance doubly

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(38). Id., ibid., p.4

sure, there exist in British Columbia on the western slopes of the Rockies, iron ore resources of which little has been said up to the present. One day that iron ore will come to Alberta just as in the United States iron ore moves to Pennsylvania blast furnaces. Similarly, on the Canadian east coast, Nova Scotia is preparing to play a much more important part in Canadian industrial life. Her situation on the Atlantic seaboard with easy access to the markets of the world, her coal resources and nearness to fabulous iron ore deposits make that province a logical and probable site for tremendous industrial development. And furthermore, in another sector of Canada, many experts believe that the iron ore of Quebec and Labrador to which titanium has now been added, will make the St. Lawrence Valley the industrial Ruhr of America, especially that portion of the valley from Kingston to Montreal. In this sector, power can be produced in vast quantities, at least as cheaply if not more cheaply than any other place in the world. Such production efficiency and capacity is of tremendous importance for the development of steel and associated industries.

Still considering such development from a regional point of view, other benefits are to be noted. In regard to oil development in the west, there is the obvious benefit to the western agricultural economy which is a highly mechanized industry. There are more than three times as many tractors on western farms today as there were before the war. Statistics reveal that 63 percent of the farmers own tractors; and also, there are five times as many combines and three times as many trucks as before the war (39). It was of course a far from desirable condition that crude oil, from which to refine the needed fuels for these machines, had to be hauled by rail from United

(39). Hewetson, H.H., loc. cit.

States fields for distances upwards of a thousand miles. The availability and increased supply of necessary fuels, together with price reductions, have made possible a greater use of power equipment, the result being reflected in increased production of food-stuffs which has contributed not only to the agricultural but to countrywide prosperity. In regard to iron ore development in Labrador, benefits will be relatively small until production gets under way. With the increase in production volume however, there will be a concomitant increase in local ancillary businesses, but more than that, each ton of ore produced will have a cumulative effect on Canadian prosperity as a whole.

However in regard to the overall picture there are certain factors of industrialization to be considered when looking to the future. The shift in the economic centre of gravity to the North American continent holds out great opportunities for Canada if she can but take advantage of them. Across the Atlantic today people are looking abroad; on all sides one reads of plans to go where fresh opportunities exist: opportunities for industry in the sense of resources and markets, and opportunities for individuals in the sense of a fuller life. It is to be considered not too ridiculous nor fantastic to suggest that the ultimate resolution of the deep-rooted economic dislocations that have been so apparent in the first half of the twentieth century, will involve a great migration of peoples and skills from an over-crowded Europe to the New World. Even if such a situation does not come to pass because the Old World succeeds in recreating a balance of productive power, Canada would be well advised, and in fact for her it is an imperative that she institute a well considered and vigorous immigration policy designed to broaden her home market and facilitate further industrialization, developments that would tend to diminish her vulnerability to outside influences. In regard to such recommendations, it is to be noted that Canada has already broadened her immigration policy, so much so that new inhabitants are pouring into Canada in a flood that rivals that of the boom years in the 1920's. Not since 1929-the peak year of immigration before the destructive effects of the depression dried out the stream - have immigrants arrived in greater number than the years 1947 and 1948. In 1947 approximately 64,000 immigrants arrived in Canada (40), and in 1948 the stream was increased to 125,414 persons (41). The factor determining the number of immigrants to be admitted, is the rate at which newcomers can be absorbed into the Canadian economy. However it is to be expected that the rate will even further increase inasmuch as Canada, in relation to her population, is probably developing industry today at a more rapid rate than any other country in the world.

Furthermore, industrialization or national progress requires an adequate and continuing supply of new capital in the sense of everything from a farm tractor to a vast industrial plant. The truth still remains, thrift - the saving up of something from to-day's output in order to increase and improve the output of tomorrow - is not a moth-eaten, static and rather dubious virtue but rather a fundamental law of dynamic growth. And yet it has for some time been apparent that Canada is endeavouring to do more in the way of industrial expansion than the flow of capital forthcoming from the aggregate savings of business and individuals will permit. As a result, Canadian industrialization has relied to a great extent upon capital from other countries, most notably the

(40). Release by Department of Mines and Resources, Immigration Branch, as reported in The Ottawa Evening Journal, 63rd. year, no.217, issue of August 26,1948,p.10,col.

(41). Release by Department of Mines and Resources, Immigration Branch, as reported in The Ottawa Evening Journal, 64th. year, no.53, issue of February 11,1949,p.16,col

United States, in order to undertake that industrialization which her resources warrant. In this field then, there must be a change of attitude if the Canadian people are to derive a greater measure of benefit from the exploitation of their natural resources. If the people themselves will not save to invest in their own country, then the Canadian Government must undertake measures to diminish dependence on foreign capital, proportionate of course to the wealth of the nation and her ability to sustain development.

In the meantime however it is to be considered that Canadian development, particularly in iron ore and oil, will not languish for want of capital. The investors of her neighbour to the south are always seeking fresh opportunities to make more money; Canada in the past has been a lucrative field for such undertaking. In recent years Canada has experienced an investment boom and it is to be expected that such situation will carry on into the years to come with foreign investment continuing at a steady if not increasing rate.

The following table will show the fresh inflow of funds into Canada from the United States for direct investment since 1945.

TABLE XII (42)

Inflow of capital into Canada from United States for direct investment (1945-1948)

1945-------	$17 million
1946-------	41 "
1947-------	48 "
1948-------	68 "

Furthermore together with the inflow of such capital into Canada, there is usually an influx of skills and scientific know-how designed to safeguard and

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(42). Abbott, Hon. D., Minister of Finance, speaking on the Foreign Exchange Control Act in the House of Commons, March 17, 1949, Hansard, Vol.88, no.37, Ottawa King's Printer and Controller of Stationery, 1949, p.1571.

foster such investment.

So much then for production in the near future, Canada has the resources and the United States has the capital and the ability. As for markets, it is to be considered that production in such fields can be undertaken on the widest possible scale in the not too distant future. The iron ore in Mesabi is playing out, and in regard to oil it is estimated that known reserves in the United States will suffice only for approximately 18 years. In such circumstances then the future for Canadian production looks very bright indeed. Moreover the prospects of easy access to United States markets will be of benefit not only to the Canadian producer but to the Canadian economy as a whole. Canada's balance of payments structure vis-a-vis the United States will be greatly altered, her debits will be reduced and her credits increased, and this only as the result of initial unrefined production. The development of these essential and basic products, iron and steel, will enable Canada to eventually establish an industrial status that will solidify her place in the international economic limelight, that will establish domestic stability, and that in the long run will reduce and virtually eliminate her external vulnerability.

CONCLUSION

Canada cannot and does not look with favour on purchasing arrangements or bilateral trade pacts which tend to divert away from Canada either British, European or Colonial products which otherwise could be sent to Canada. Moreover, the tendency of the United Kingdom and other European Countries not only to sell but also to buy from non-dollar countries, even at higher prices, constitutes a much more serious threat to Canadian trade. Canada's trade surplus with European Countries is therefore being reduced, not so much by an increase in imports from those countries as by a reduction in exports from Canada to them. The creation then of such a protected trading area among the nations of Western Europe and the sterling area has definitely affected the Canadian economy in an adverse manner, and such restrictivist activities are likely to be continued for a number of years to come.

Canada's growth and progress has been made possible by foreign trade, every aspect of her economic life has rested upon it. If she is forced to abandon in some measure this basis of her existence, becsuse of the shrinking of her markets in Europe and the sterling area, disaster is bound to follow. But no such 'shape of things to come' should be accepted fatalistically. It is true that European countries have not the dollars with which to buy Canadian goods on the old scale, and, that the only measure to avoid a widespread disequilibrium in current account is to restrict the volume of imports from the Western Hemisphere. Undeniably, difficulties do exist for those countries in regard to trade with Canada, but, the governments of those countries have shown a lofty and detached attitude in considering the dollar-sterling problem or what have you, and an apparent unwillingness to do anything very tangible about it. Canada cannot solve the problem alone, although she has taken several steps to encourage British trade for example, in an attempt to supplement United Kingdom holdings of Canadian dollars and thereby enable her to buy Canadian goods. Import restrictions, designed to conserve United States dollars, have worked to the advantage of British exports inasmuch as the quota applied gave United Kingdom producers preferred access to their pre-war share of the Canadian market. Also, in the early years of World War II, in 1940, Canada granted a discount of 25 to 50 percent from the normal preferential duties to a wide range of United Kingdom goods. These wartime tariff reductions were maintained in effect until January 1948, when they were replaced by the reduced tariff rates negotiated at Geneva. However, even in regard to those goods where Canada has extended substantial tariff preferences, the United Kingdom has persisted in trading with countries other than Canada. For example, the Canadian budget for 1947-48 suspended tariffs on British cotton and rayon goods from May 1947 until June 1950, and it is considered and established that full advantage has not been taken of such concession. Moreover, dumping duties were waived on several classes of imports from the United Kingdom enabling that country to sell goods cheaper on the competitive Canadian market than they were sold to the people of Britain. Measures such as these, together with the special efforts of the Department of Trade and Commerce and its commercial representatives in the United Kingdom have been initiated in an attempt to stimulate the interest of British exporters in the Canadian market. Furthermore the Government of Canada has made repeated requests, at the very highest level, that authorities in the United Kingdom and other Commonwealth countries do all they can to take advantage of the favourable opportunities which Canada has offered for their exports.

It cannot be said, then, that Canada as a creditor nation in regard to Europe is shirking her responsibilities; she is most certainly willing to accept goods in payment of the debts that European countries have contracted with her. The onus of responsibility for the diminishing flow of trade therefore, rests with the European area. If Britain is keeping her price levels so high that she cannot compete with hard-currency countries, that goods will not flow in the necessary volume to Canada, then of course Britain has to accept the responsibility for the low-level of trade between herself and Canada. It has been said that the social services in Britain are being maintained by those countries that pay high prices for British goods, and that the countries that are buying goods from Britain are in reality paying for these services. That may be one factor creating high prices. Another factor would be the continuing over-valuation of the pound sterling in regard to the Canadian dollar, and all other hard currencies as a matter of fact. Although the official rate for one pound sterling is $4.02 Canadian it can be purchased in the open market at a price ranging from $2.50 to $3.00 Canadian. Such a situation is not conducive to extensive trade between the two countries and serves as a deterring factor in the purchase of British goods. However, the real reason for the high prices of British goods is the inefficiency and high cost factors of British industry. This is the problem that must be considered in order to solve Britain's dollar problem; they must restore their productive capacity and efficiency so that they are able to sell more goods to Canada and other countries in the Western Hemisphere.

In this latter connection, encouragement is to be drawn from the recent successful efforts of the United Kingdom to increase her exports to Canada. In 1948 she exported a total of $299.6 million to Canada[1], a total

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(1). Foreign Trade, Department of Trade and Commerce, Foreign Trade Service, Vol.V, no.112, Ottawa. Issue of February 19, 1949, p.368.

which was 60 percent higher than 1947. Such an increase would seem to substantiate the fact that competitive offerings would find Canada able to absorb larger quantities of goods than she is now receiving. However Canadian exports to the sterling area and E.R.P. countries fell in respect of a large number of items, including wheat, apples, poultry, fish and lumber as well as automobiles, trucks, parts and other manufactured goods.

It would seem therefore that Britain and E.R.P. countries are directing their efforts towards balancing their current accounts with Canada, and that in the future, Canada will have a reduced trade surplus or no surplus whatsoever. In the light of such possibilities therefore, Canada cannot look forward to current account surpluses with Europe to provide her with exchange to satisfy and pay for the same pre-war proportion of imports from the United States.

In regard to Canadian transactions with the United States on current account, it is to be noted that Canada's position has improved to a certain extent, and as a result her reserves of gold and dollars have risen to $1,065 million as at March 12, 1948 [(2)]. It would appear that the policies, both negative and positive, which were adopted by the Canadian government to deal with exchange difficulties have been highly successful. The negative policies have been the import controls and the travel restrictions which have resulted in a substantial curtailment of purchases in the United States and of travel

(2). Abbott, Hon. D., Minister of Finance, speaking on the Budget, in the House of Commons, March 22, 1949, Hansard, Vol.88, no.40, Ottawa, King's Printer and Controller of Stationery, 1949, p.1786.

in that country. However, more important both from a regional and international point of view, were the positive policies which included encouragement of exports to the United States as well as tourist income development, and assistance to the Canadian gold mining industry. On the trade side alone, Canada managed to reduce her merchandise deficit with the United States from $918 million in 1947 to only $284 million in 1948 (3). This reduction of $634 million in the current account disequilibrium was occasioned by divergent trends in Canadian receipts and expenditures - the former increasing by $465 million or approximately 44 percent while the latter decreased by $169 million or approximately 8.5 percent (4).

Such an increase in receipts from the United States would seem to indicate a shift in Canada's export pattern, but in effect, a certain portion of the increase should be attributed to higher prices for the products of mine, forest and land. However it is hoped to further increase exports to the lucrative market to the south, but there are certain contingencies to be remembered in pursuing such a policy. Immediately there is a surplus of goods and a surplus of materials in the United States, Canadian exports to that country will fall off just as Niagara Falls drops over the brink. The tremendous possibilities of production in the United States is bound to create surpluses in that country in the foreseeable future, even though the European economy is reconstituted on its pre-war basis. In such an event, Canada will be shut off from the United States market especially in all manufactured goods. Furthermore, if the United States economy should undergo a recession or even

(3). Abbott, Hon. D., Minister of Finance, speaking on the Foreign Exchange Control Act in the House of Commons, March 17, 1949, Hansard, Vol.88, no.37, Ottawa, King's Printer and Controller of Stationery, 1949, p.1564.

(4). Id., ibid., p.1564.

depression as a result of such surpluses, if that economy must adjust itself to a lower level of production in order to meet changing world conditions, then the exports of Canadian primary products which form the great bulk of Canadian sales to the south will also decline. It would appear therefore, that the volume of Canadian exports to the United States is dependent first of all upon the level of production in the latter country - upon the functioning of the American economy, as a whole, and secondly, upon the effectiveness or ineffectiveness of pressure group lobbying in the United States Congress against the entry of Canadian manufactured goods into their domestic market.

Despite such contingencies however, the position of the Canadian economy vis-à-vis the United States is becoming stronger all the time. The Canadian economy gains its strength in comparison with the United States, simply because the United States is becoming a have-not country in respect of certain commodities that Canada produces in abundance. The United States is running out of many basic raw materials, and is becoming more and more dependent upon Canada for these materials, with particular reference to many of the base metals and newsprint, among other things. However, Canada is fully in production in these fields and her position cannot be strengthened except insofar as she undertakes further processing of such commodities. But there are certain fields in which Canada possesses the resources that the United States most certainly will need. Such resources are iron ore and oil in particular, and in such fields Canada can and has yet to make great strides in strengthening her economy. The United States iron ore deposits in the Minnesota Mesabi range have been exploited for the past fifty years, and now it is considered that in 10 years time only a low-grade high-cost product will remain; 10 years is not so far to look ahead when considering the highly capitalized steel industry. Canada should and must develop her tremendous potential of iron ore production. Furthermore, the known reserves of United

States oil are expected to play out in the next 18 years, and, barring favourable developments in atomic energy, such a situation opens up enormous possibilities for Canadian production and expansion, - for the development of Canada's known and unknown potential oil reserves.

What are the methods in general that can be used to develop these valuable minerals? What can or should Canada do to facilitate the development and expansion of her rich resources?

The first possibility is socialism - the ownership by the state of the means of production and distribution, with the economic control of the people being vested in the civil servant. It is true that the modern state today is inevitably being drawn more and more into the fields of individual welfare and security, but that need not necessarily mean that the state should take charge of the lives of its people. The primary function of any economic system regardless of its name or nature is to produce goods and services for the satisfaction of human needs by the direct and indirect application of human effort to materials provided by nature. It is on these grounds that Socialism can be basically criticized for the purposes of this discussion. A fundamental criticism has to do with the allocation of productive resources. Land, labour, capital and managing ability are scarce in relation to the possible uses to which they can be put - this is the economic problem in any system. Under capitalism these productive resources are allocated according to the law of supply and demand - the price mechanism; but under socialism there is arbitrary pricing of land and capital, the most important productive agents, with the result that the allocation of these resources to their various possible uses is substantially arbitrary. It is quite possible and most likely probable that if a Socialist government was brought to power in Canada, that the iron and oil industries would receive the full weight of their consideration and attention. But would these industries and the economy as a whole benefit under a socialist system? Would their development be as fast and dependable as under the present system? In regard to prospecting for oil for example, it is to be noted that not all ventures are profitable. Muskeg No. 1, Coalspur, Brazeau and Stolberg locations proved to be dry holes, and the total cost of drilling these holes was $3,673,832 without any financial return on the investment(5). Such losses involved in the search for oil should give pause to those who talk gibly of government development of all natural resources. Socialist governments simply cannot afford to run the risk of the staggering losses that all too frequently are the result of even the most promising schemes. It would not take many losses such as that previously indicated before a Socialist government would be content to sit back and allow development of natural resources to stagnate. Private enterprise with its supplies of expendable risk capital fills a unique role in the development of natural resources. An expanding economy requires an enviroment in which the essential functions of the risk-taker is recognized, encouraged and rewarded. The matter of incentives to enterprise must be fully taken into account in any public policy designed to accelerate industrial growth. Therefore, Canada cannot achieve her economic destiny is she should veer to Socialism with its emphasis on security for the individual, and which thwarts and diminishes the productivity upon which individual well-being and social advance are ultimately dependent. There has been enough experience with similar situations throughout the world, where planners have no direct interest in or knowledge of a business, and have therefore brought about conditions which in Canada would most certainly not be in the public interest.

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(5). The Drilling for Oil is a Costly Business, editorial written for the Winnipeg Tribune, reprinted in the Ottawa Evening Journal, 64th. year, no. 82, issue of March 17, 1949, p.5, col.5-6.

Another measure that has been employed in the past and will undoubtedly be further employed in the future to develop domestic resources of various countries is, protection for infant industries by means of high tariff rates imposed against imports of competitive products. For example, protectionists take pride in the wonderful growth of the United States iron and steel industry which in 1870 recorded a negligible proeuction, in 1880 produced 1 million tons and in 1890 produced 2 million tons. Can Canada do the same? And is protection for Canada's iron and oil industry necessary in regard to competition with the United States? First of all, Canada can undoubtedly do the same, despite the tenor of the General Agreements on Tariffs and Trade and the Havana Charter, both of which express the hope that trade barriers will be reduced, although they allow loop-holes permitting freedom of tariff action for the protection of young industries. However, as to the necessity of such a policy, a negative answer must be given. Canada is already producing enough iron ore to supply her blast furnaces, and also in regard to oil, she is producing sufficient quantity to satisfy her refining and consumption capacities within present-day economically accessible markets. With particular reference to oil, a protective duty would raise the price of the total supply whether foreign or domestic, and all to no avail for the producer and to considerable detriment for the consumer. Facilities for production, refining and distribution are not sufficiently developed to benefit either of these classes. Development of oil reserves in normal times is subject to economic forces: one is the large capital requirements, another is geographical limitations of markets. This latter obstacle requires that crude oil be carried out to market at the least possible cost, which means by pipe lines in the greatest degree possible. Pipe lines take time and money to build and for Canada to gain independence from imports of United States oil, other than by product exchange, would require a cross-country network of pipelines. Furthermore, the development of new markets, like the construction of pipelines, cannot be accomplished in a few days. Oil cannot be pumped through a pipeline unless there is someone to receive it and use it at the other end, and, to use it refineries are needed that will process it for the markets that will absorb it. Under prevailing conditions, two years is a short time in which to build a sizeable refinery, and again much capital is involved. The application of a protective duty in connection with oil production is unjustifiable; Canada has the resources, she has imported the skill and experience, and capital is flowing in in ever increasing quantities. She most certainly is not at a disadvantage in production for already she has backed the United States product out of her Western markets and has even begun to impinge on the latter's home market. In the years to come, the market for Alberta products will be extended further and further eastward and southward, but in the meantime, the rate of pipeline construction and the location of markets will depend upon the availability of construction materials and capital. During those years a protective duty would be of benefit neither to the producer nor the consumer, and when expansion has been completed, it should not be necessary nor in all probability will it be necessary, because of the limited supply of United States oil available for domestic purposes let alone export purposes. In regard to iron ore production, a similar situation exists. Canada is already producing a sufficient quantity to supply her blast furnaces and rolling mill capacity. The construction of further plants would involve tremendous capital expenditures and considerable length of time, if such construction were economically justified. Canada of course has abundant iron ore, but unless hydro-electric processes replace coal as a means of reducing and refining the raw material, it is to be considered that the greater part of Canadian iron ore production will move to the Pennsylvania coal fields just as the Mesabi product has done in the past. Undoubtedly, a certain proportion of the Canadian output will move to her coal mines on the Atlantic coast, but it is considered that Canada must look to the markets of the south for the sale of the greater portion of her anticipated 20 million ton per year output. And such a volume of raw material will not be refused or disdained in the American market; it will be openly welcomed because of the continuing depletion of United States high-grade resources. Therefore, if, as it would seem likely, the Canadian output will be able to openly compete on foreign markets, what necessity is there for a protective duty to protect the Canadian market. The Canadian iron ore and oil industries do not and will not need a protecting tariff in order to develop and flourish.

The mighty natural resources of Canada should be and will be the basis of future prosperity, but the difficulty is to present a plan for their large-scale development. The problems associated with the opening up of these resources or of putting them to practical use are often beyond the comprehension of the leaders of government. Development therefore, rests with the private industrialist, who, in seeking to expand his sources of supply, to increase his volume of sales, or to extend his industrial holdings, will take up this challenge to his ingenuity.

However, although the leaders of government have not the key to each individual industry, they have, what is more important from a national point of view, the key to the welfare and prosperity of the nation as a whole. It is obvious then, that leadership and guidance must come from the government side in considering a national problem such as the Canadian balance of payments difficulties vis-à-vis the United States. Furthermore, such leadership and guidance must be more constructive than just a simple injunction to all Canadian industries to reduce purchases and increase sales in the United States. It must embody a substantial amount of co-operation and understanding between government and business such as that which was enjoyed in war-time. Such co-operation and understanding should be practiced in the field of economic research, in the formulation of commercial policy, and in the practical applications of measures designed to alleviate the problem. Laws and regulations imposed from without, even systems of cash incentives and penalties, are blunt and clumsy at best. They have their place to be sure, but they will be more palatable if they are developed in consultation with industry as a vitally interested participant, and thus they will be more likely to be followed in the spirit as well as in the letter. Such co-operation will develop suggestions not only for government policy but also for practical business application, and it will be enriched by the wealth of detailed knowledge otherwise unobtainable.

In any attempt to solve Canada's balance of payments difficulties then, the Government must take the initiative, providing the leadership in research, regulations and decrees, while business could contribute at each step and in the last analysis must do the job. It is suggested and recommended therefore that the machinery for such co-operation is to be found in industrial committees for liaison and advice. As to the composition of such committees, it is recommended that all interested parties be represented: federal, provincial, and in some cases municipal governments together with industrialists who are experts in the particular field to be studied by any one committee. These parties all have their own special interests in industrial development, interests that are directed to the same objective but from a different point of view. They are all making individual efforts to further industrial development. An industrial committee is therefore necessary in order that their efforts will be most productive, and in order that policies will be carried through with a minimum of obstruction. At the very least, the fact of prior consultation will make the final policy more acceptable, more informed and more realistic. Common sense suggests, and war experience to some extent confirms the value of such committees. However, even in this recommendation it is not hard to envisage difficulties. For the purposes of organization alone, it would be easiest to establish all committees covering the whole of industry, at the same time. Yet the few qualified research workers available could not possibly give attention to the whole field at once, and the initial enthusiasm in many committees might die out quickly if research support were delayed. Therefore in order to simplify such difficulties, it is recommended that the initial establishment of committees should be confined to a few industries - those industries that hold the most promise of bringing Canadian trade with the United States into a better balance. Having regard to the enormous possibilities of Canadian power, oil and iron ore development in such a connection, it is to be considered that herein lie projects for top priority under such a scheme.

Canada has a vast reserve of water-power still undeveloped. She is already a large industrial user of electricity by any standard, but it should be possible to intensify this use to the point of displacing much imported coal. Co-operation between government and business will point up the need for scientific research not only as to development but also as to industrial uses. Here of course, economic research can do little more than make a careful stock-taking of the resources that Canada has, and ensure that sound economic projects and industrial uses have not been overlooked simply because habit or better known technique have established the use of imported material. In regard to such considerations, it is to be noted that the

St. Lawrence power project, the use of atomic energy for industrial and commercial uses, the further uses of natural gas and petroleum, together with new and improved methods of mineral ore reduction and processing will all receive consideration in an informed and realistic manner. And out of such consideration and investigation would come policies and practices that could serve to make Canada more independent of the United States in regard to fuel for energy purposes.

In addition, there has been relative neglect in years past of the economic possibilities in Alberta coal, oil and natural gas fields, in the Alberta tar-sands for example, largely because it has been convenient to fill requirements from across the border. And now both government and industry are interested in the tremendous potentialities of that western Canadian province. However, there are difficulties being encountered which need the consideration and co-operation of all interested parties in order that the benefit of such development to the national economy will be most rapidly realized. For instance, it is believed that pro-ration of oil production will be inevitable by the summer of 1949 (6). Pro-ration would be government enforced reduction of production from each well, because of lack of sufficient markets. Latest official figures show that Alberta oil wells are turning out 50,000 barrels of oil daily, a volume that is believed to be at or near the refining capacity of the Prairie Provinces and within perhaps 10,000 barrels of the average daily consumption of the Prairies (7). New pipeline construction and new refineries are therefore needed in order that new markets can be obtained. To this end, the Canadian government for its part, should make available the construction materials necessary, especially

(6). White, J.R., Vice-president Imperial Oil Ltd., address before the Canadian Club of London, as reported in the Ottawa Evening Journal, 64th. year, no.87, issue of March 23, 1949, p.15, col.2.

(7). Id., ibid., p.15.

steel, and also, endeavour through its fiscal policies to create a climate within which private initiative thrives and industrial expansion is encouraged. The expenditure of United States dollars for capital goods to develop the industry should be sanctioned as far as possible, and also, greater incentives for the risking of private capital in such development, such as special taxation measures giving allowances for exploration and research, should be extended and continued for the development of Alberta oil. Great encouragement should be given to the finding of new oil fields, and the most practical form of encouragement is that of minimum exploration costs; similarly, all reasonable provisions should be made for the development of existing fields at minimum cost. The amplitude of such action should be the result of the investigation and research of an industrial committee comprising representatives of both government and business, in order that the financial burden will not bear too heavily on the Canadian tax-payer in proportion to the national benefits to be gained, and, in order that such policies will be realistic, informed and consistent with sound petroleum engineering practice. Furthermore, such an industrial committee would investigate and consider the construction of pipelines in connection with the needs, means and effects of such construction in relation to government legislation. In addition, the question of transportation subventions - their benefits and consequences upon the welfare of the economy, would also be considered, with probably favourable reaction. The activities of such a committee would be designed to facilitate, expedite and increase the production of Alberta oil, to that end that such production will serve not only to make Canada independent of the United States but also to enable Canada to eventually reverse her present position vis-à-vis the United States in regard to oil.

Measures such as those outlined above are equally applicable to the

Canadian iron ore situation. Though her enormous deposits in Labrador are not yet being exploited, there are still considerable difficulties in the preparatory field that could be smoothed and ironed out by an industrial committee. Vital machinery must be imported and set-up, sizeable and specialized construction must be undertaken such as the construction of a 350 mile railroad from deposits to port, and exploration, testing, and proving continue apace. The importance alone of such a development warrants the existence of such a committee, but further and ample reasons are to be found in the factors enumerated above.

Concluding, therefore, Canada now holds the position of the third largest trading nation in the world, and her economy demands the maintenance of a maximum volume of international trade; inasmuch as approximately one-third of Canada's production must be exported, one of the most important considerations in her trade policy must be the disposal of that surplus. As a consequence, the Canadian Government should pledge itself to the principle of an expanding international trade and should use every endeavour to promote, foster and develop such trade.

However, one-half the world led by Britain and Sir Stafford Cripps has moved back the clock of progress by barter trading or state trading, action that has tended to drive the pound sterling and the dollar, be it Canadian or American, farther and farther apart instead of bringing them closer together. In spite of statements that the present United Kingdom policy is short term, it is to be expected that Britain's present fiscal policy will keep the pound and the dollar apart for years to come. Therefore, Canadian surpluses, which hitherto had been directed in large measure to the United Kingdom market, must be reoriented to new markets, redirected to the United States, or find an increasing market in domestic territory. However such policies are bestrewn with difficulties and barriers, and even if pursued to the necessary degree, would be unlikely to supply Canada with a stable and continuing flow of United States dollars with which to equilibrate her current account with the United States.

It remains therefore for Canada to produce those goods which will find a ready and continuing market in the United States and, as far as possible to reduce her dependence on United States imports by a redirection of Canadian industry to the production of those commodities formerly imported from the United States, or to the production of acceptable substitutes. In the former group is to be found iron ore, oil, and their products, which in past years have proven a source of embarrassment to her but which in years to come should prove a source of joy and comfort; in the latter group, it is to be considered that another of the chief embarrassments in Canada's balance of trade position vis-à-vis the United States, the sizeable importations of coal, will be considerably reduced through the use of alternative sources of energy.

As to the implementation of such a conclusion or the measures necessary to effect such policies, several considerations are to be remembered. Canada is a free enterprise economy and the initiative for industrial expansion remains with private individuals and firms; the actual development must be left to the genius of private enterprise. Furthermore the Canadian Government should, through its policies, endeavour to create a climate within which private industry thrives and industrial expansion is encouraged; she should act in co-operation with her provinces to develop taxation and fiscal policies calculated to encourage the investment of risk capital. In this way she will encourage not only her own investors but also the investors of older and richer countries. In addition, the Canadian government should take the initiative in forming industrial committees to co-ordinate the efforts of governmental, business, and other groups interested in achieving full and effective use of industrial expansion in the interests of all Canadian citizens. And last but not least, a national policy for the development of Canada's natural resources and industrial capacity, merits and makes necessary the introduction of a long range immigration policy calculated to bring into Canada selected immigrants whose qualifications are such as to effectively permit them to be assimilated into her enterprising and rapidly growing economy.

Canada may be and should be regarded as a Promised Land, but all that she or any other well-endowed country can promise is that she will provide the raw materials in abundance and prosperity without end - and this only to those who are willing to do the work needed to turn those raw materials into useable and desirable goods through the honest labour of heart and brain. À propos, Canada has reached her present position of influence and prestige through the enterprise and tenacity of her individual citizens who have applied their intelligence to the exploitation of the country's natural resources. May she continue to flourish... Canada has a past to be proud of, a difficult present... but a future to dream about.

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