

on our side, for a position which, we feel, gives the best hope of maintaining and extending peace. There are three fundamental tenets of free world policy in this situation. First, our strength should be adequate for defence and sufficiently great to discourage any aggressor from entering into open conflict with us, yet not so overwhelming or used in such a way as to encourage the mistaken conclusion that we are arming for aggression ourselves. Secondly, our productivity for peaceful ends must be maintained and increased to provide a firm basis for a healthy, dynamic and democratic society, and to give an example to communist-dominated countries of the benefits of our free way of life. Finally, this production must be used, in part, to aid the under-developed free countries to improve their material well-being and their ability to resist aggression.

The division of public expenditure between these broad requirements is one of the most difficult problems facing governments of the Western World. The division depends on the best assessment that can be made of the likelihood and, if likely, of the timing of any concerted armed attack on the western world. The greater the risk of imminent aggression, the more essential it is to bring our armaments rapidly and collectively to a level which will provide a strong deterrent and an adequate defence. In doing this we do not abandon the hope that total war will not break out. Nor should we act, politically and diplomatically, as if it will or must. Diplomatically, for instance, we should not get into a position of rigidity, taking firm positions in advance on questions in such a way as to remove our freedom to manoeuvre later.

One concrete indication of our hope for peace is the extent to which we are planning to provide technical and capital assistance to the under-developed countries through the United Nations and under the aegis of the Colombo Plan to help them out of their economic difficulties. These and other economic policies of partial peace will inevitably place great strain on productive capacity now and in the future, but I am confident that with the spirit of co-operation we have now achieved among free nations we shall be able to meet the present economic requirements of our political policies.

The commercial policy of the present situation is a compromise policy. It has two broad divisions: First, there is the policy to be adopted in trading with Russia and its satellite or associated countries. Secondly, there is the policy to be adopted in trading with countries of the free world.

As to the first, some people hold the view that the free world should cut off all trade with Russia and the satellite countries, notwithstanding the fact that some of the free countries on the periphery of the iron curtain have longstanding and important trade relations with their communist neighbours. I, personally, do not think such a course is desirable or necessary at present. The severance of all trade relations with these countries would, in many cases, be as harmful to the economy of the free world as it would to the countries behind the curtain. In some cases the effects on the free world might be even more harmful, both economically and politically.

There is, however, common agreement on one aspect of our trade relations with the Soviet communist countries. The Canadian Government together with many other countries