

range of transactions with the United States than has existed in the past, but without saying in advance just what the content of this judgment should be. That would be something like your new investment legislation, if I understand it correctly.

In other words, if that interpretation is correct, the Sharp statement would be more procedural than substantive. I am not really in a position to say whether that is the correct interpretation. If it is, one would have to say that it left the economic meaning of the third option indeterminate until one got down to cases.

Let me conclude by a shift in focus away from the actual text of the statement. Mr. Sharp quite rightly stresses the fact that Canadian-United States relations are affected by changes in the global setting. That is a subject which I think is worth fuller exploration, especially as there are quite contradictory forces at work. Without elaborating, I should like to make three rather blunt statements about how the events of the last 18 months might affect the third option.

The increased economic and political power of countries outside North America is noted in the statement as giving Canada opportunities to dilute the bilateral relation. That is correct, provided these shifts in power lead toward a greater opening up of economic relations and a movement in the direction of what we used to call multilateralism, rather than in the direction, which many people see as being more likely, of a stress on blocs, poles, or bilateralism. There is nothing inevitable about these developments, so far as I can see. My own strong preference is for the more co-operative system, but my experience tells me that that is the most difficult of the results to achieve. It requires sustained attention by a number of governments who are in some measure agreed on their aims.

We have been through this once before. I referred to the fact that in the forties I was involved in what was then called post-war planning. Canada was one of the founders of the resulting system, which in my opinion served us very well for a quarter of a century. Difficulties later arose in the system and, in Canada's case, I would say that at some time, perhaps about the beginning of the Kennedy Round of trade negotiations in the early sixties, this country moved from becoming a leader in that system to becoming something of a laggard, I am afraid. I am not altogether clear how things stand right now, but I am quite sure that if the shift in international economic power does become a movement toward blocism, Canada will find that the pressures for continentalism, bilateralism, a special relation, dependence—use whatever terminology you like—will be strengthened both here and in the United States.

My second comment concerns American policy. The Sharp statement speaks of pragmatism in what the United States was doing. That pragmatism has been felt by a number of people in my country as a weakness, precisely because this old system of economic co-operation had gotten into serious disrepair, and it was not really going to be possible to rebuild it without a sense of direction and purpose. That is what pragmatism does not give you. Moreover, in the year after August 1971, the term "pragmatism" in the United States had distinct tones of economic nationalism, a kind

of "looking after our own interests" that could finally destroy the old open system.

Had development gone on in that direction, the pursuance of the third option might very well have posed some unpleasant choices between a sharper nationalistic reaction in the United States than was allowed for in the original paper, or accepting a higher degree of continentalism than I think was intended or that most people would find in the text. You can certainly still hear many echoes of those attitudes, but I would say that by the fall of 1973 a year after the paper was published, United States policy was fairly clearly set on a course of trying to rebuild the system of international economic co-operation. In those circumstances, inevitably, the prospects for the third option improved.

I come now to my third point, which is quite simply that the world has again changed since last fall. The combination of the energy crisis, high demand for food, and fear of a more general raw materials shortage over the foreseeable future has had three major consequences. The first is a great strain on international trade and payments. No one feels able to agree now to arrangements for monetary and trade reform that were shaping up as quite good possibilities six or nine months ago.

The second consequence is the strong shove that many countries feel toward the need for unilateral action to escape as best one can from a difficult situation without too much regard for what happens to others. Whether any significant degree of international co-operation can be salvaged from that kind of a situation is far from clear.

The third consequence is something that Canadians have known all along—producers of energy, food and raw materials have been given a new importance in the world. How long this will last, on what conditions they can make the most use of their power, and to what ends, are large and, on the whole, rather new questions. The old patterns of co-operation are inadequate to deal with them. What new ones would make sense is not so easy to see. The temptation to muscle flexing and unilateralism by producers is clearly very great. For Canada, in these circumstances, the third option seems to me to take on added dimensions, and perhaps added uncertainties as well. Thank you.

**The Deputy Chairman:** Thank you, Mr. Diebold.

Honourable senators, before I call on Senator McElman, I am sure you would want me to welcome Mr. Robert L. Funseth, who is sitting behind Senator Carter. He is Political Counselor at the United States Embassy. We extend to him a warm welcome.

Senator McElman?

**Senator McElman:** Mr. Chairman, perhaps I should start, through you, by saying to Mr. Diebold that I am a Maritimer from New Brunswick, and traditionally in that part of the country we support free trade, God, clam chowder, and more free trade—not necessarily in that order. That philosophy would normally lead one to support the second option, that of closer integration. Canada has gone for the third option, that being to lessen its vulnerability and to diversify its trade and other relations.