

Supply—Trade and Commerce

If we were to succeed in diverting 15 per cent of our trade from the United States to the United Kingdom I suggest that it might not be the United Kingdom which would step in and supply the consumer goods that we want in this country. It might, for example, be Germany. Germany might pick up most of the business for the following reasons. The Germans do produce excellent goods and they produce them at competitive rates, probably better competitive rates than is the case with the English. Along with their sales they provide first-class service and the type of consumer goods that Canadians would perhaps prefer. If this proved to be the case the objective of the minister would again be defeated.

I think it is quite true that many years ago the United Kingdom controlled most of the Canadian market. However, since that time we have had a tremendous development in Canadian industry and United States power has come to the fore. I think it follows that observing these results Great Britain decided to divert her own trade to the more natural channels of the sterling area. The United States is dominant in the dollar group and the United Kingdom is dominant in the sterling group and I suggest that the United Kingdom would be very jealous about giving up control of the sterling group if that control were threatened to any extent.

If Canada offers \$600 million to the United Kingdom in the form of trade it seems to me that the United Kingdom is faced with the problem of investing in capital goods and plant in order to produce the type of consumer goods that this country wants and I doubt very much if the United Kingdom is prepared to invest in plant and capital goods without some assurance of a secure market in Canada. Whether or not this means that the United Kingdom will demand a long-term trade agreement, I do not know, but it seems to me that their reference to opening a free trade area between the United Kingdom and Canada obviously followed from that reasoning. They must have some assurance if they are called upon to invest in capital goods and plant that they will have the opportunity to sell in this market.

The natural trading area for the United Kingdom is of course the sterling area. Sterling is the means of payment and British manufacturing capacity has been directed to supply the needs of this area. The sterling group needs are consumer needs whereas Canada's needs are capital goods. Canada belongs to the dollar group.

I wish now to make a few general observations. It occurs to me that any policy of trade

[Mr. Macnaughton.]

diversion from the United States to the United Kingdom could easily deprive us in Canada of certain raw materials which we require to keep our factories going, and let me refer just in passing to certain metals, clays, oil, gas and coal. Again, this proposed diversion could certainly invite retaliation from the United States.

Restrictions on the imports of fish and oil from the west and iron ore from the east could very easily be imposed. Again this proposed diversion may create a lack of confidence in the foreign investor; that is to say, the rate of foreign investment in this country might perhaps slow down because if the foreign investor becomes alarmed over or afraid of the present government's financial policy or the present government's trade policy he might stop making investments in this country.

Canadian expansion has been financed to a large degree by outside capital and employment in Canada is geared to an expanding industrial economy. If we do not get the money to build the industrial expansion unemployment will obviously result. Unemployment is increasing every day and in our neck of the woods we fear that by the end of January we may have as many as 560,000 unemployed in this country.

Generally speaking, any nation that starts to restrict imports starts the trade ball rolling down the hill. None of us knows where it will stop. We had an example of that in 1929 and in the subsequent depression and I think we need to view any change in trade policy very carefully in order not to run into the same sort of thing.

I am told that a few years ago James Duncan, through a voluntary effort, tried to induce certain Canadian manufacturers to buy more from the United Kingdom. I understand that a survey was conducted among Canadian firms and they were asked to review the things which they would need and, if possible, to buy from the United Kingdom. So far as I know this effort had very little impact on the Canadian economy for the following reasons: first of all, the Canadian manufacturers would of necessity be buying in the cheapest market in order to reduce their costs. If they were not doing that at the time, then their competitors would beat them out on price. If this proposed diversion to the United Kingdom does not bring about the opportunity of buying materials at a cheaper price it may in turn increase the prices to the Canadian manufacturer and consequently limit his capacity to compete in the over-all world markets.

It seems to me that our trade with the United States has been a natural development of North American economy. It is obvious that