

Dr. HOPE: Being free from commitments, I would say that I have had the feeling for some time, and what I have been studying lately confirms it, that a large block of the world is shifting to socialism, or in that direction. In other words, a large block is shifting to a planned economy.

Hon. Mr. EULER: There is no doubt about that.

Dr. HOPE: And the nations which are shifting to a planned economy are going the road to the welfare state; and the combination of welfare state and planned economy, if brought about before they get their efficiency up high, tends to make them high-cost countries. That is what has resulted in a good part of Europe, and therefore, even for a while, as the rate of change in productivity diverges it makes trade more difficult, especially if you have rigid exchange rates. Then they attempt to balance by restrictions. If you have a rapid change in efficiency between two nations, that process destroys the ability to trade; but if you have a stable condition between the two, the opportunities of trading would not be so restricted.

Hon. Mr. BURCHILL: To come back to your point about the relation between the flexibility of the exchange rate and the inefficiency of production: you claim that you can protect the inefficiency of production by making your exchange rate flexible.

Dr. HOPE: Yes, if you have a flexible exchange rate it finds its natural level.

Hon. Mr. BURCHILL: In other words, if production is inefficient the value of the currency of that country would decrease?

Dr. HOPE: Trade would have to flow somehow or other, and if it is to flow at all the exchange rate and the price would compensate each other over a period of time, and their money would fall in value.

Hon. Mr. BURCHILL: But the fall in value would compensate for their inefficiency?

Dr. HOPE: Yes, it would have to. And the fact we have decided to worship fixed exchange rates means that we take one of the automatic adjustments away, and if you try to take its place by either loans, gifts, or restricting imports, it is not economic any longer. That was a new philosophy, born in the war.

Hon. Mr. HAIG: But you do not believe in it?

Dr. HOPE: I do not believe it can be done.

Hon. Mr. HAIG: That is where I agree with you.

Dr. HOPE: It could be done if European nations are willing to try to raise their efficiency, and we lower our tariffs a bit. But if we cannot get them to raise their efficiency, and we will not lower our tariffs, what will happen is that they will continue to block trade, or there will be another huge revaluation. Britain is trying to avoid that possibility, because if the pound goes down again it will wreck all the confidence of people who have money balances in Britain.

Hon. Mr. CRERAR: Do you think it is possible to get the maximum amount of efficiency in a completely welfare state?

Dr. HOPE: No, I do not think you can.

Hon. Mr. CRERAR: I have come to that conclusion also. For instance Britain, before the war, exported 40,000,000 tons of coal, mainly to European countries, some to the Argentine, some to other countries in South America. That was a tremendous factor in their balance of payments. But the progress of the welfare state in Britain and the shorter working hours for miners, and higher pay, and that sort of thing, has resulted in Britain today being able to do little more than provide enough coal for her own requirements; and she has lost a valuable export. I think your paper—if I may say so—is a very admirable paper.