

far that the United States, at least, was threatening to surpass its progenitors, but this was not widely recognized at the time, at any rate in its implications for economic policy.

The devastation of the 1914-18 war in Europe, and the exhaustion of its peoples, must now be recognized as marking the end of an era. But old habits of thought die hard. The new world made loans and gifts to the old world to put it back on its feet - and then promptly raised tariffs as though it was the new world rather than the old which needed protection. Full recovery was never achieved in Europe after 1918, even in Great Britain, the most mature and formerly the most dynamic economy of all. While some degree of stability was temporarily maintained by American loans, the inevitable ending of such loans left Europe in a desperate situation and was one of the factors contributing to the great agricultural and industrial depression of the thirties.

At the very outset of the depression, the United States once more sought to protect itself by drastic increases in its tariff. By this time, however, as indeed in 1920, the United States was too big, too important, to be able to pass its troubles on to others. A small country may do that, for a time, but not the most powerful and wealthy nation in the world. Other countries could not stand up under the impact. So all of them looked for methods of protecting themselves against the spread of unemployment and falling prices. (You can imagine the effect on Canada, for example, when the United States, which had always exported far more to Canada than it imported from Canada, proceeded to apply prohibitive tariffs and quotas against Canadian products). The net result of all such actions, regardless of how they started, born of misunderstanding rather than of ill-will, was that we were all worse off. Unemployment grew to mass proportions and gave rise to great social conflicts. Hitlerism and other retrograde political movements fed on, and in turn gave rise to, all kinds of distorted economic policies.

In Great Britain, although the fundamental disequilibrium of today was already present, it was obscured by the effects of their unemployment and the abnormal cheapness of their imports arising from depression elsewhere. It is now clear that a full employment policy at that time in the United Kingdom, or in North America, by its effect on the volume of United Kingdom imports or on their prices, would quickly have shown that the balance of payments of the United Kingdom in 1939 was in an even worse condition than in 1949, and the same would be true of a number of other European countries. The fact is, at no time since 1914 has Europe been able to support a condition of full employment without external financial assistance.

In 1938 the current deficit in the United Kingdom's balance of payments was £70 million. Imports exceeded exports by £302 million, and net invisible income was £232 million. But both export prices and import prices were lower in 1938 than they would be under conditions of full employment and buoyant world trade. At 1948 prices, the excess of imports over exports in 1938 would have been about £1 billion. Imports would have been further increased if there had been full employment in Britain. A tremendous increase in exports would have been necessary, therefore, to pay for unrestricted imports under such conditions. Alternatively a large increase both in unemployment and in import restrictions would have been required to balance the United Kingdom's international accounts if today's prices had prevailed.