

dollar imports to the lowest possible amount while developing their trade with each other and with other non-dollar countries. At the present time many of the E.R.P. countries are discriminating against imports from the Western Hemisphere in order to economize in their use of dollars. As the dollar deficits are, in a sense, covered by E.C.A. appropriations, these policies reduce the burden on the U.S. Treasury and are not discouraged. Indeed, in present circumstances, one cannot be too strenuous in one's comments. But the danger in these policies, which we might as well recognize, is that the countries concerned, as part of a programme of economizing dollar outlays, may impair their own capacity to earn dollars. They will do this if they establish special techniques for trading with each other at high prices without having to face the competition of efficient producers in Canada and the United States. Exports by the countries forming this system to each other will be easier than exports to the Western Hemisphere. In the long run, I think such a system would break down. There are no continuing rewards for high cost production. But it could delay world economic recovery by concealing the need to raise levels of productivity in countries where they are below the standards needed to meet world competition at home and abroad. And in the meantime, the restrictions and discriminations involved could impose severe burdens on Canada which continues to rely to a considerable extent on having a surplus of exports to the United Kingdom and Western Europe and using the proceeds of that surplus to pay for a surplus of imports from the United States.

I believe that what this general line of thought adds up to, so far as Canada is concerned, is the need for caution in projecting too far forward the relatively favorable position which we have developed in the past year. And it suggests too that we would be well advised to take advantage of the present breathing spell to try to achieve a better balance in our direct bilateral transactions with the United States.

I have come now to the end of what I have to say. I realize that this lecture has been much less positive in tone and less definite in its conclusions than the one I gave here a year ago. This is no accident. A year ago Canada was up against a concrete problem which to a considerable extent we had in our own hands to deal with - we had to bring the decline in our international reserves to an end and build them up again. To do this we had to have a large current account balance of payments surplus. This mission has been successfully accomplished and this year the problems confronting us do not have the same desperate urgency - our reserve position has been considerably improved. But our present problems are more complex and therefore more difficult. They involve economic and political decisions of great importance. The answers are not to be found in the back of the book and I cannot tell you what they are. Both you and I will have to be satisfied if I have managed, at any rate, to indicate to you what some of the problems are.

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