

be compared to that deceptive dead spot in the middle of a storm. But some may consider it unduly optimistic to think that the storm has yet reached the half-way point. In any case, it is clear that recent events provide the occasion and indicate the need for some re-appraisal of the objectives being pursued, and of the measures necessary to achieve them.

"While the recent tripartite conference in Washington did not itself result in the adoption of any immediate, specific measures, there was one very important development which came to realization just after the conference, namely, the world-wide revaluation of currencies that was set in motion with dramatic suddenness by the revaluation of sterling. The dust has not yet settled from the commotion caused by that action, and its specific effects cannot yet be appraised. It was essentially an overdue recognition of conditions which had been developing for some time and which had created such wide disparities between prices in North America and in Europe as virtually to amount to a two-price system. Devaluation was intended to bring prices in the dollar and non-dollar worlds much more closely in line, but devaluation cannot by itself correct the conditions which gave rise to price disparities. Currency devaluation is not a cure-all for fundamental ills:...

EXPORTS TO NORTH AMERICA

"The export and import trade of European countries with each other and with the rest of the world has continuously increased in all directions save one. The one direction in which substantial progress has not been achieved is in the development of an adequate volume of exports to North America either from European countries or from their dependencies and close associates.

"...On both sides of the Atlantic, it would seem that we have not understood, until quite recently at any rate, and certainly not faced up to, what amounts to a fundamental structural alteration in the economies of Europe and North America, and in their relations with each other. We have tried to patch up immediate difficulties in the hope that somehow an older, more comfortable economic pattern would come to life again. We have not accommodated our thinking to the idea that the old pattern is gone forever, and a new one must take its place....

"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....

"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....

"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....

DEPENDENT ON OVERSEAS COUNTRIES

"The United Kingdom and other industrial nations of western Europe have for a long time been dependent on overseas countries for supplies of foodstuffs and raw materials. It was the very essence of the kind of world economy which they built up, based on the international division of labour, that they should concentrate on industrial production, and encourage and rely on a great expansion in agricultural and other primary production in overseas countries. In addition to providing capital for overseas development, they paid for their full import requirements with exports of goods and services. Why can they not do so today, and why have they not in fact been doing so for the past thirty-five years?

"The immediate and apparent cause, no doubt, lay in the development of industry in the new countries, which began to produce for themselves some of the goods that they previously had to import, such as textiles and a number of other products throughout the range of light industry. To a large extent such a development was inevitable and right, once these new countries passed out of the early pioneer stage, but it is also true that the process was accelerated and extended into un-economic fields by excessive use of tariffs....

"But dynamic free economies ought to be able to adjust themselves to changing conditions, so we must look for more fundamental reasons for the failure of the old-world - New-world trade system to accomplish this. One of these causes may be found in the old world itself, in the rigidities which developed in their industrial structure, the decay of efficiency in certain lines of production, - above all, in the failure to replace obsolete

equipment and to adjust production and marketing technique to modern mass market conditions. But even more important, and perhaps a substantial cause of the shortcomings of European industry, was the use made of tariffs and other protective devices in the new world, to thwart and frustrate every attempt by Europe to develop markets for its products. Indeed, the rates of customs duty are often highest on precisely those goods which European and other countries are able to produce best and most efficiently. And that is no accident. It has been the case that, until recent years at least, tariffs, subsidies, import restrictions and other devices have been used not with a view to securing the most efficient use of the world's resources by a free economy, but to encourage the development of industries some of which are uneconomic or should I say inappropriate. When such action comes from North America, the home of free enterprise, that surely is an extraordinary state of affairs and suggests that economic thinking has not kept pace with economic change.

LESS PROTECTIONIST

"I think it is fair to say that Canada is on the whole less protectionist in its outlook than the United States. It is true, of course, that in many lines our industrial development is a good many years, perhaps a generation, behind yours, and that some Canadian producers require protection against the giant industries of the United States. But as regards our trade with Europe, it is becoming more evident that even little Canada can go a long way in the direction which more and more of your own observers believe the United States must go, - the removal of barriers to imports, the acceptance of foreign competition as an essential factor in a free world economy, and therefore in your own economy....

"In the meantime, ever since 1945, to say nothing of earlier years, European countries, spurred on by each successive dollar crisis, and being of too faint hope of sufficiently increasing their exports, unable, they feel, to develop freely their production for world markets along the lines best suited to them, have been trying desperately to produce for themselves goods not well suited to their productive resources, goods which North America in fact could produce more cheaply for them. (Certainly Canada could produce lumber, newsprint and most foodstuffs much more efficiently and cheaply than the European and sterling area countries which are trying to expand their production of such items.)

"This attempt to reach self-sufficiency, in Europe and indeed throughout the rest of the world, has by no means fully succeeded, and perhaps never will. To the extent that it fails, the maintenance of tolerable standards of living and political institutions in Europe will require that European countries continue to get such supplies from the dollar countries,

and get them free - unless the means of payment can be earned. In both Canada and the United States we find ourselves in the fantastic position of having to make loans and gifts to proud and industrious peoples who want to pay us in full with real goods, and would do so if we would let them. And in the meantime they are driven to prop up their own economies with more and more controls, more and more restrictions, more and more bilateral deals. I wonder if it would be going too far to say that free enterprise, the operation of truly free economies throughout the world, is incompatible with the maintenance of obsolete economic policies by the people of North America....

"Europeans are not going to follow the kind of policies we want, just because North Americans believe those policies are desirable. They are not going to do that even though they themselves believe such policies are desirable. They cannot. They cannot adopt those policies unless and until the right conditions exist for the success of those policies. It is only the United States which can see to it that those conditions do exist. It is only the United States which can take the lead, which can assume risks, which can take sufficiently sweeping and far-reaching action to do the job and convince others - after an interval - that it is possible for them to do likewise.

EUROPEAN COMMERCIAL POLICY

"To be concrete, I do not believe that European or other countries can return to free economies, can follow the kind of commercial policy to which all of us attach so much importance, so long as the dollar shortage exists, and I do not believe the dollar shortage can be effectively and permanently overcome unless North America, and especially the United States, provides a much larger, more accessible and more reliable market for the goods which other nations have for sale. Only when other nations feel secure in their incomes from exports will they be able to deal freely with their expenditures on imports....

"One factor which has seriously aggravated the present difficulties of a number of European countries is that they are maintaining a high level of overseas expenditures, far beyond their capacity, partly by way of political and military activities to maintain law and order and resist Russia's imperialistic programmes, and partly by way of capital exports for developmental purposes....

"Surely it is inherent in the altered relations between Europe and North America that the greater part of the financial and physical capital required for world development must now come from a new source, no longer from the old. We have the necessary resources to do the job, and it is vital to our own interests to see that the job is done, and well done. This would be true in a time of peace. It is even more true in the present condition of