

restrictions. The consequence is the same: resources are misdirected and uneconomic production encouraged. Originally imposed to meet balance of payments difficulties, the import restrictions in effect in these countries, and the special discriminations which others practice in their favour, become props for industry to lean on, and on which industry ultimately becomes dependent. Temporary in their conception, the restrictions have continuing weakening effects. As the French, with their customary realism, point out, "Il n'y a rien qui dure comme le provisoire".

When a person from a country fortunate enough not to have import restrictions points to their evil consequences, it is often thought that his remarks are prompted only by a desire to sell more goods to other countries, and that in the process he develops into a preacher of perfection. I would not like to have it said of me that my capacity for taking a stern view of other people's duties is matched only by my ability to maintain a calm, philosophical attitude towards other people's troubles. I want to assure you that I have not fallen into the habit of preaching, that I am well aware of the difficulties confronting other countries and that I do not think there is any easy solution to the problems which I have been discussing. Perhaps I am just exercising the traditional right of the banker to "view with alarm". But in all seriousness, I do suggest that the present state of affairs constitutes a chink, and indeed more than a chink, in the armour of the free nations and that it represents a weakness in the economic foundation underlying their defence efforts - a weakness which, if allowed to develop could become very great indeed.

If I am right in these anxious thoughts, then we must hope that people will not be merely "against" the paraphernalia of import restrictions, special currency arrangements and so forth in the way that everyone is "against" sin. The world did not get into the present position because of deliberate choice, but because at each moment of time the immediate situation seemed to call for action along certain lines, and the longer-run future consequences seemed remote and unforeseeable. The future - or part of it - is at hand; and the longer-run consequences of past emergency measures are clearly perceptible in many fields. If countries are to get out of these entanglements, they must first of all base their policies on a clear recognition of the direction in which they wish to move, and then make sure that the measures adopted produce incentives which lead in this direction and not - as has so often been the case since the end of the war - in the opposite direction. If international balance at a high level of transactions, without import restrictions, is to be attained and the misdirection of economic resources avoided, we shall have to make an ally and not an enemy of the system of prices and incentives.

What lessons can we in Canada draw from the state of affairs I have been describing? We must, of course, do what lies within our power to influence the course of world events in a favourable direction. But we must also be prepared to keep our heads well above water even if developments elsewhere are unfavourable. To do so we shall continue to need flexibility in our economic system, we shall have to maintain our productive efficiency at a high level, and to keep our costs on a basis where we can face world competition. We shall need, in short