countries which are dependent on foreign supplies of foodstuffs and raw materials.

So far as the former group of countries are concerned, many of them have shown in recent years an ardent desire to increase their manufacturing facilities. Factory chimneys belching forth smoke have come to be regarded as symbolic of economic progress. No doubt a greater degree of industrial development in under-developed countries is most desirable over a period of time. But when capital resources are relatively scarce, the question of priorities assumes major importance. The first law of economics applicable to a situation of inflationary pressure is that goods are scarce and have alternative uses. What the import restrictions do is set up false priorities; they make the worse appear the better alternative. By their effects on prices and profits, they encourage the development of secondary industries which are dependent on continued import restrictions or prohibitions for their survival. In many cases, these industries produce non-essential goods. Import restrictions produce a situation which draws people away from the country to the cities. They reduce the relative profitability of the production of exportable foodstuffs and raw materials which have to face world competition, and they therefore operate to reduce the production of these essential things. In a word, the effect of the restrictions is to channel resources in the wrong direction to perpetuate inflationary conditions, and to weaken the basic economic structure of the countries applying them.

The economic development of under-developed areas is a task of great importance and urgency. These countries are poor and populous; their domestic savings are low; they need foreign capital for their development. Policies which weaken the basic economic structure do not make for attractive investment opportunities.

Turning now to the industrial countries, it is clear that developments along the lines I have been mentioning carry great risks in the way of reduced supplies of foodstuffs and raw materials, and adverse terms of trade. If one excludes countries such as Canada and the United States, if is difficult to find many examples of substantial increases in the pre-war level of production of foodstuffs and raw materials. Moreover, increases in domestic consumption in the producing countries have in many cases tended to reduce the size of exportable surpluses. These developments are of great significance for highly-industrialized European countries which have traditionally depended on overseas suppliers of foodstuffs and raw materials.

Canada and the United States are exceptions to the tendencies I have been describing: our production of foodstuffs and raw materials has increased quite considerably. But the fact that we are able to supply the goods does not get them into the hands of the United Kingdom and other industrial countries which need them: there is the slight matter of payment which intervenes. And unfortunately the same tendencies which have been operative in some of the primary producing countries have also, for somewhat different reasons, been operating in certain industrial countries, with debilitating effects on their economic structure and on their capacity to make payment for their imports in the only ultimately feasible way - by exporting the right goods to the right places at the right time at the right prices. In these industrialized countries too, inflationary pressures have been strong and have given rise to balance of payments difficulties: here too the difficulties have resulted in import