

PLANS TO MEET U.S. DOLLAR SHORTAGE

FINANCE MINISTER'S SURVEY: In the House of Commons, Dec. 16, Finance Minister Abbott gave a detailed exposition of Government plans to meet the shortage in United States dollars. Mr. Abbott was moving second reading of Bill No. 3, an Act respecting emergency measures for the Conservation of Canadian Foreign Exchange Resources.

He described the U.S. dollar problem as serious and urgent. In determining its policy, the Government had the following objectives and considerations in view:

1. The measures taken had to be sufficient to bring our U.S. dollar problem under control. At the recent rate of depletion, our remaining exchange reserves would have lasted only a limited period and their disappearance would have clearly involved extreme difficulty and drastic restrictions.
2. It was essential to find a lasting solution to the U.S. dollar problem through a constructive approach designed to increase and re-direct our trade and production.
3. It is much in Canada's interests to assist and facilitate recovery in Western Europe.
4. The measures to correct our exchange difficulties should be designed with a view to minimizing dislocation to our economy.

The emphasis of the programme Mr. Abbott continued is on constructive measures which we hope and believe will bring about a solution to our U.S. dollar difficulties in the reasonably near future, and bring it about in a manner that will enable us to maintain a high standard of living and a high degree of freedom in our economic life. We cannot, however, expect to achieve a sufficient expansion and readjustment in our production and trade to correct overnight a U.S. dollar deficiency of the present magnitude. The constructive side of the programme must therefore be supplemented by restrictive measures. We are in a serious situation and we must make some prompt adjustments in our consumption and in our investment programmes.

The restrictions will save substantial amounts of U.S. dollars. While it is difficult to make precise estimates, the prohibitions and quotas if they had been in effect during the twelve months ended June 1947, would have excluded imports from U.S. dollar countries to the value of something like \$300 million. The travel restrictions would have reduced our U.S. dollar expenditures by from \$30 to 40 million. A substantial saving will result from the control of imports of capital goods but it is hard to say how much and in this case the saving will increase as arrangements are worked out in particular industries, and as capital expansion plans are reviewed. As time goes on the constructive measures will steadily bring

about a better balance in our U.S. dollar transactions, and meanwhile as an extra margin of safety we have at our disposal a U.S. credit of \$300 million.

LONGER-RANGE CONSTRUCTIVE POLICY

I have heard it suggested that the constructive part of the programme lacks content, that it is too general and too vague. That is a mistaken view. There is nothing vague about the reductions in the United States tariff which resulted from the negotiations at Geneva. And if the statement that the governments of Canada and the United States are consulting on measures designed to achieve the maximum degree of economic co-operation between the two countries is a general one, let me assure the house that it is far more than a mere statement of good intentions. If the United States Congress decides to authorize the use of Marshall Plan funds in making purchases outside the United States, as we hope and expect it will, that will be a decision of great importance to Canada. It is true that the programme to develop and re-direct our resources and industry in a manner that will permanently reduce the undue lack of balance in our trade with the United States is just beginning. But as the Minister of Reconstruction will confirm, it is a serious programme which the government will pursue with determination and vigour.

Referring for a moment to the Geneva trade agreements which are now before the House, I would direct particular attention to the reduction in the United States tariff as it affects this country. Substantially better terms of entry have been accorded to farm products, lumber and wood products, and base metals, to mention some of the more important categories. Note should be taken of the fact that tariffs have been reduced on articles processed from our primary production as well as on the primary products themselves. This enlarges the opportunities for further development of fabrication and processing of our primary output and for increasing the proportion of our exports to the United States in the more valuable processed and manufactured forms.

U. S. TRADE AGREEMENT PROPOSED

Important as these new tariff reductions are, the Government believes that steps should be taken to reduce further trade barriers and to promote closer and more advantageous economic co-operation between the two countries. It is the desire of the Government to reach a further trade agreement with the United States. This proposal has been made informally to United States officials who are studying this and other methods of promoting mutually beneficial economic co-operation.

The government has been investigating the possibilities of shipping additional supplies to the United States and there is a good deal that can be done in the near future. While it

will take time to increase to desired levels our production of the sort of goods which have a ready market in the United States, output of some such commodities is still expanding and new capacity is coming into operation. Considerable further expansion in our U.S. dollar exports can be achieved by diverting exports away from other countries and by reducing Canadian consumption. Action along these lines is necessary and practicable to a substantial extent. It is expected that deferment of some capital projects and reduced consumption of some goods in this country will make available larger supplies for export. It is well to remember that expansion projects and production of durable goods involve the use of large quantities of Canadian-produced goods, such as base metals and wood, which might otherwise be exported, as well as the use of very substantial imports.

So far as diverting exports to the United States is concerned, the exchange difficulties of Britain and other countries have led them to restrict their imports from Canada with increasing severity and to confine their purchases to only the most essential items. Fortunately, there is a market in the United States for many of the exports which are being restricted by these countries and to that extent diversion will take place rapidly. Canada naturally does not wish to divert supplies which are urgently needed overseas.

EFFECT OF MARSHALL PLAN

The extent to which we can continue to assist Britain and other countries will depend in large measure on the implementation of the Marshall Plan. The prospects for the approval of this plan by the United States Congress are I believe encouraging. Such a constructive and imaginative step by the United States could make the difference between a healthy world recovery and the indefinite continuance of economic dislocation and distress over much of the world.

The form in which the Marshall Plan is implemented is also very important to us. We have pointed out to the United States how our difficulties in buying from that country arise very largely from our inability to sell to Europe for cash, and we have expressed our concern that dollars made available by Congress for aid to Europe will be used in part to purchase supplies in Canada and elsewhere that are not readily available in the United States. The United States Government has recommended to Congress that it should authorize the use of funds voted for aid to Europe in making purchases outside the United States, and this principle has already been accepted by the U.S. Senate in regard to the interim aid programme. We expect that this policy will be implemented in regard to Marshall Plan funds and if it is we shall be better able to continue our own programme of aid to Europe. If it is not, we shall have no alternative but to divert further exports from overseas to the United States.

It will be appreciated that our ability to contribute to world recovery depends very largely on overcoming our exchange difficulties in a manner that will not restrict our total production. A greater integration of the efforts of the United States and Canada to assist world recovery would add considerably to the capacity of this continent to provide urgently needed assistance just as it did during the war. We are making every effort to achieve the needed integration and we have encountered a most co-operative and helpful reception in our discussions with the United States Government.

I do not propose to deal at length with that part of the policy which is the particular responsibility of the Minister of Reconstruction, since he will shortly be outlining his plans to the House. The aim is to achieve a better balance in branch plant operations, to encourage expansion of production for export to dollar markets, and to facilitate the development of production and resources in a manner that will ease our U.S. dollar deficiency. The government has no intention of embarking on a programme of building up uneconomic production in this country. It is convinced, however, that there are great possibilities for expanding and re-directing our production in an efficient manner so as to improve permanently our exchange position.

The government will endeavour to centre the attention of industry on this question and in some cases it may be necessary to take specific action to facilitate the kind of readjustment and increases in production which are required. We expect that Canadian industry will realize its interest in and responsibility for the success of this programme and there has already been an encouraging response. We want to maintain and expand our industrial structure, but we must find methods of doing so which will not involve the present excessive drain of U.S. dollars.

RESTRICTION OF IMPORTS

Some concern, Mr. Abbott said, had been expressed as to the severity of the specific restrictions imposed on imports. In the spheres where it was feasible to impose specific restrictions, they were admittedly quite severe. They had to be if we were to save any substantial amount of U.S. dollars.

Mr. Abbott proceeded: There is one further general point about the restrictions that I wish to emphasize. It is that we have imposed them in a manner broadly consistent with the principle of non-discrimination. That is to say, the same restrictions calculated on the same basis have generally been applied to all countries. When the import of an article had been prohibited, the prohibition applies to all countries. Similarly, the import quotas are based on pre-war trade and are applied in the same manner to the two groups of countries which have been listed. This principle of non-discrimination has caused some confusion and misunderstanding. Why, we have been asked,