

clauses, which in many cases would allow nations to continue practices which would prevent unbalanced payments. In other words, if you sit around the conference table, apparently every nation has some artificial props to maintain a certain status quo.

Hon. Mr. EULER: What about GATT in connection with that.

Dr. HOPE: GATT is very similar. The I.T.O. Charter also had many escape clauses.

There is no magic in this solution. As we have indicated before a good deal of the present international difficulties are due to the sharp differences in efficiency of production between the dollar and the non-dollar areas. Under some settled and stable international relations small differences in productivity are compensated by changes in prices and exchange rates, but since Bretton Woods most countries have stuck to rigid exchange rates and attempted to maintain these rates by a network of trade restrictions, but even these restrictions failed to hold unrealistic exchange rates with the result that the sterling area devalued about 30 per cent in 1949.

The devaluation resulted in a temporary improvement in the balance of payments but the lack of ability of European Governments to control their own international price levels compared with the price levels of the dollar area has almost wiped out all the advantage gained by the devaluation of three years ago.

First and foremost the non-dollar areas' most important contribution to the solution of the problem of dollar balance would be to achieve a structure of costs and prices that is in line with world market conditions. This objective can only be attained by a real conscious effort to restrain inflationary pressures by sound fiscal and monetary policies. A lower cost-price structure would improve the competitive position of European nations in the dollar area markets.

The other important contribution of Western European N.A.T.O. nations would be to embark on a broad liberalization of trade policy within Europe itself. They complain about North America, but in many cases they are doing the same thing themselves. The progressive lowering of tariff barriers within Europe and the elimination of import quotas would do much to stimulate competition and increase efficiency of production. A start could be made in the direction of a common European market for all goods by selecting a few key products at a time and forming a customs union for these products—in other words eliminate all tariffs and trade restrictions within Western Europe for such products. They have done much with coal and steel. If all the European N.A.T.O. nations could not agree on a customs union for particular products—then only those members who would agree could make up the free trade area. In other words, the coal and steel plan and the Schuman plan do not include them all. It includes six—but you could have a customs union with only three countries.

Thus we see that Western Europe's contribution to the balance of payments problem is to put her own house in order by maintaining internal financial stability and by making a concerted effort to liberalize trade within her own community.

#### *Responsibilities of North America*

The United States is now by long odds the wealthiest and most powerful nation in the world. Both from the point of view of its imports and exports the impact of its trade has a vital influence on the economies of the Western world. Over the years the United States has gradually changed from a debtor to a creditor nation and for this reason there needs to be a basic change in her economic policies if she is to be able to give the necessary leadership to the Western world.