

*Productivity and Trade*

allow them more favourable access to our internal markets under preferential treatment in order to improve their own economy and eventually become future customers for many of our goods.

We seem to have here, as in so many other of our economic policies or thrusts, fallen in with the thinking of the Americans as regards our trading relationships with the underdeveloped world. This type of thinking was espoused by Secretary of State Kissinger in his message of the special United Nations session on economic development in September, 1975. Mr. Kissinger's message to the special United Nations session on economic development in September, 1975, was, in my opinion, a profoundly small "c" conservative ideological document.

First of all Mr. Kissinger advanced a standard and utterly unrealistic American theory about how the developing countries will break out of the cycle of poverty. He said:

We believe that economic development is in the first instance an internal process. Either societies create the conditions for saving and investment, for innovation and ingenuity, for enterprise and industry which ultimately lead to self-sustaining economic growth, or they do not.

Practically every word in that sentence is a free enterprise slogan—and I emphasize slogan. More important, Mr. Kissinger asserts a crucial United States premise: the developing countries will advance just as we and other capitalist powers did, because that is the only way.

Second, Mr. Kissinger posits harmony in the relationship between rich countries and poor, not conflict. He said that the advanced nations have an interest in the growth of markets and production in the developing world. In turn the developing countries have a stake in the markets, technological innovation, and capital investment of the industrialized countries. The world market, as it is now constituted, will facilitate economic development in the Third World, particularly if everyone stops criticizing that great instrument of progress, the multinational corporation.

In his United Nations speech Mr. Kissinger merely warmed over Ricardo's famous theory of "comparative advantage" which, as first stated in 1817, teaches that if every country specializes in what it does best, everyone will benefit. It is a good theory, if its assumption occasionally approximated the real world, for its givens are: competitive markets in the sense of price competition, an inability of capital to migrate, uniform international wage rates, and full employment. Although nothing like these conditions has obtained during the past century and a half, the theory has remained enormously popular because it helps to rationalize the wealth and power of the capitalist world.

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Considering the institutional environment of Ricardo's day, and judged by Britain's priorities, Ricardo's theoretical and actual support for free trade seemed justified. In fact Britain used the free trade doctrine to its advantage during the peak of its power as a colonial empire in the latter half of the eighteenth century. Anybody who picks up the most recent edition of Professor Paul Samuelson's best selling *Fundamental Economics*, the text book that every beginning economic student becomes acquainted

[Mr. Hogan.]

with at college, will find the basic argument for free trade summarized as follows:

Unhampered trade promotes a mutually profitable international division of labour, greatly enhances the potential real national product of all countries, and makes possible higher standards of living all over the globe.

I want to digress for a few minutes on this matter of Canada's trade relations with the Third World in order to comment on the recent report of the Economic Council of Canada affirming its support for Canadian free trade. Needless to say it was following the long tradition of economic thought just summarized. Indeed the various regions of Canada which are geographically diverse are often cited as an example of a free trade area. We know that we, of the Atlantic region, have suffered in the past from this sort of thinking. Actually we have suffered in large part from tariff policies enacted as a part of national policy since 1879.

In making these comments on the Economic Council's affirmation of free trade as a policy option for Canada during the latter half of the 1970's I would not want to fall into the trap of advocating a blatant protectionist policy for major sectors or industries in the Canadian economy during what is obviously a changing international and global economic framework. No. To repeat, we well know in the Atlantic region that high, hidden subsidies, or tariff protection for central Canadian manufacturing, have meant, among other things, that we have had to pay, for generation upon generation, high prices for built-in inefficiencies, in other words for protective policies which have been of benefit to central Canada. The "infant" industry argument for protection has meant that many infants in Ontario and Quebec have never grown up.

In the present general agreements on trade and tariff I hope that the broad trust of Canada's position to the developed countries will be more favourable to the free exchange of goods and services; I do not think we should be in favour of protectionism. The business firms of this country should spend more time on initiating and promoting productivity and efficiency, and less time crying for protection.

Having said that, I believe that the Economic Council of Canada has pushed the free trade argument as a policy option for Canada during the latter half of the 1970's too far. Its modern extensions of Ricardo's 1817 model are based on facts which bear little resemblance to the existing international political and economic order. In addition to the assumptions previously noted, the free trade model requires small, powerless, and passive trading firms, unimpeded flows of labour between countries and within national boundaries, the free flow of capital, and non-managed flexible exchange rates. Only when these institutional conditions are met will the participants in international trade experience any improvement in their real standards of living.

I remind the House that today's world is made up of multinational corporations, trading blocs, tariffs and quotas, immigration and emigration restrictions, and control of capital flows. The realities of the Canadian industrial scene suggest that increased specialization would be important only in the manufacturing sector. It is obvious that our resource sector is already highly specialized and,