

Of course both economies have been operating for the last 15 years in an international environment which originally called for a great increase in productive facilities, but which has since undergone a real transformation. It should not surprise us therefore that the vast programme of capital investment undertaken in North America since 1945, much of which was required to satisfy the needs of a war-impooverished world, should have created some surplus capacity now that the economies of Western Europe and Japan have been rebuilt. The growth of new industrial facilities overseas on the scale we have seen was bound to create situations calling for adjustment in North America. However, while these adjustments may take time before they are complete, we can both speed up the process by proper policies.

Another new element in the world economy to which we must adapt ourselves is the success which has been finally achieved in the key industrial countries of Europe in containing the inflationary forces which were at work throughout the last decade or more. While all of us welcome the restoration of stable monetary conditions, producers in North America generally must recognize that they can no longer expect that the competition which they encounter in markets at home and abroad will be eased by virtue of the inflation of prices and costs in foreign markets. I have been acutely conscious of the implications of the growth of overseas competition for our Canadian producers and have repeatedly pointed to the need to keep costs down and to improve the efficiency of production.

Balance of Payments

Both our countries today face a balance-of-payments problem, but, so far as the United States is concerned, the experience is an unfamiliar one. Your problem, as I understand it, is that you are experiencing an overall balance-of-payments deficit which for several years now has been running at a rate of \$2 or \$3 billion a year, and in consequences are suffering steady losses of gold and foreign exchange. The situation seems to be that, while your total trade in goods and services is reasonably in balance, the outflow of funds resulting from foreign investment and from your foreign-aid programme is in excess of the inward movement. It would hardly be proper for me to comment on the implications of this problem for United States policies. What I can say is that we in Canada have a sympathetic appreciation of the difficulties in which you find yourselves, and that we welcome the implicit desire of the Administration and the Congress to avoid measures for solving them which would only create balance-of-payments difficulties for other countries, or slow down the progress of the world towards a freer system of international trade.

Our balance-of-payments situation, of course, is quite different in character. For one thing the total flow of international payments and receipts is in substantial balance.