

STATEMENTS AND SPEECHES

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Statement by the Minister of Finance,  
Mr. Douglas Abbott, at the opening  
meeting of the tripartite economic  
discussions in Washington, D.C. on  
September 7, 1949.

It is not necessary for me to emphasize the interest which Canada has in the successful outcome of these talks. We do not look for any pat solutions to the difficult and intricate problems which we shall have to consider. Nor do we expect to discover in the course of these few days any panacea. What we look for is agreement among our three countries that the present direction of events must be reversed and agreement on the first steps which will have to be taken if that reversal of direction is to be accomplished.

Our own national interest in obtaining such a reversal is well known. The present structure of our economy in Canada is largely dependent on a flourishing international trade. Canada is so organized that we are at the same time the principal supplier of the United Kingdom and the principal customer of the United States. We are therefore inevitably found in the middle of any squeeze which the United Kingdom feels in her dollar position, and we are one of the instruments through which the shock of such a squeeze is transmitted to the United States.

The recent deterioration in the British dollar position has naturally filled us with great misgivings in Canada. If the British are obliged as a continuing diet to cut severely into their purchases from us, our economy, which is at present operating at a very high level, is bound to be adversely affected. And we in turn will be unable to maintain our purchases of American goods and would inevitably transmit some of these adverse effects to this country. Restriction will be cumulative throughout the world, and we shall all be poorer as a result. The hope of expanding international trade on a multilateral basis which has been shared by all our Governments will be indefinitely deferred.

The problems that we face - tough ones yielding to no simple or single treatment - are as much political as they are economic and financial; in their origins, and in the cause and consequences of our success or failure in dealing with them.

As to their origins, we know that they are found, largely, in the upheaval on the various countries that took part in them. We don't forget that from 1939 to 1945 the people of the United Kingdom - whose present financial difficulties bring us here - were mobilized for total war to an extent not reached by the other Western Allies; and that the gigantic effort then made is a major source of the difficulties which they are experiencing today. We also know that when victory was won they did not relax. They kept on working. We in Canada pay tribute to that spirit - and to the magnificent assistance and encouragement given to it by the Government and people of the United States.

The two things together make a fine chapter in the story of coöperation between countries. It would be nothing less than tragedy - from which only the men behind the Kremlin walls would benefit - if that coöperation in which Canada and I'm sure other countries would wish to share - could not be effectively continued in the search for a solution to the problems on our agenda. Certainly no solution can be found except through coöperative action - extending beyond this meeting. Such action means, of course, more than finding a solution which requires action only by someone else.

In recent months the Western democracies have made great progress in building a structure for political coöperation, particularly through the Atlantic Pact. In that Pact, we recognize the simple but essential fact that an attack on one is an attack on all and that we will, individually and in concert, take the necessary action to restore and maintain security. That principle is as important in economic as it is in political coöperation. In fact, one may not be able to exist without the other. Economically and in the field of human welfare our fortunes are also linked and we go up or down together.

If we really believe that, we have some real chance of finding a solution for the problem before us - and possibly going on eventually to something bigger. If we don't, we might as well go home, and learn the hard way that it is true.

The forces of aggressive Communism have recently been set back by concerted political action. They hope to regain that lost ground by exploiting the economic instability and difficulties which they claim are inherent in our system. It is up to us here - and in what follows these talks - to prove that these hopes and calculations are false.

I think that it is important at the beginning of these talks that we should take stock of the position we have reached in the financial and economic relations among us. The present problem presents itself as an acute loss of dollar reserves by the sterling area and as an apparent inability of that important section of the trading world to finance its dollar requirements without restrictive measures which will impair its productive capacity. This is the third or fourth time since the end of the war that an acute dollar problem has arisen. The first post-war problem was dealt with through UNRRA. Then we had the establishment of the Bretton Woods Institutions, the Fund and the Bank. Simultaneously, the United Kingdom obtained large loans from the United States and Canada. Finally, last year the European recovery program was adopted, which provided further very substantial financial assistance from the United States.

One is tempted to ask whether the present problem is merely a further instalment in the same series; whether recurrent dollar crises are chronic in the post-war relations among us. One is also tempted to ask whether the emergence of new difficulties at this time is evident that the previous efforts have been misguided; whether the money was wasted. For our part on the Canadian side we don't think any such attitude is justified for a moment. In our view the money which has been provided by the United States and Canada to finance European recovery up to the present has been well spent. There is no doubt in our minds that had it not been for this assistance the economic and political problems confronting us in the Western World today would be of a much graver and more menacing character.

We feel that the present period may be taken to mark the beginning of a new phase in the relationship between the United Kingdom on the one hand and the North American countries on the other. It seems to us that the task of post-war reconstruction in the physical sense can now be regarded as more or less completed. The present crisis takes place on the basis of a much higher level of output, a much higher level of efficiency, a much higher level of living standards than the earlier crises

did. So far as the United Kingdom and the rest of the sterling area are concerned, the physical job of reconstruction of the damage caused by the war has not been substantially accomplished. This accomplishment has been aided by the help which the United States and Canada have given, but it is mainly due, and I do not think it inappropriate to call attention to this, to the efforts of the British people themselves, who have in a very short time, while living on short rations, made great headway in repairing the physical ravages of the most destructive war in world history.

What we are faced with now is not so much a further effort at reconstruction, but rather adjustment to the new situation in world affairs which has been created largely as a result of the war. The present problem is one of serious unbalance in world trade which reflects inadequate adjustments to the basic structural changes which have occurred. This unbalance is illustrated in the acute payments difficulties that the United Kingdom is now experiencing even though her aggregate exports are substantially higher than before the war and her aggregate imports substantially lower.

The further adjustments which are required will not be easy, and will call above everything else for good will and understanding on the part of all the Governments and all the people of all the countries concerned. There is no doubt that the underlying position of all our countries has been materially affected by the events of the past decade, and that we must all re-examine our economic policies to see whether they are of a character which is appropriate to the new position. It is not for me to say what should be the precise character of the adjustments which others should make, but it is apparent that the position of the United Kingdom in world economic affairs has been profoundly altered. She sold a large part of her foreign investments to pay war costs. She gave up established positions previously held on a competitive basis in world markets. Compared with the situation immediately preceding the war, the terms of trade with the rest of the world have gone against her. The real purchasing power of some of the most important sterling area exports has fallen drastically, and in addition the market for others has been severely curtailed by technological developments of a far-reaching character. The worsening in the world economic position of certain sterling area countries has imposed a heavy burden on the United Kingdom - the accumulation of sterling balances as a result of British war expenditures and in other ways has enabled these countries to draw on the United Kingdom to cover their post-war trading deficits.

In the result it seems clear that basic adjustments are required which will give tangible recognition to the facts which affect the United Kingdom position in the world.

Adjustments are also going to be called for in American policy and in Canadian policy. The United States now finds itself in a position of leadership in world economic and financial affairs. The United States is virtually the sole creditor country in the world, virtually the only country of any size which has almost complete freedom of action in the field of international economic policy. It is clear that the adjustments to this new position must take time, but it is also clear that the adjustments now are incomplete and that, just as the United Kingdom must re-examine her economic policies to determine whether they are appropriate to her international position, so must the United States re-examine her economic policies to determine whether they are appropriate. I have in mind not only the importance to the rest of the world of the maintenance of domestic levels of employment and income which facilitate dollar earnings, but also the question whether tariff policy, policy regarding customs administration, policy regarding foreign investment, policy regarding the distribution of the financial burden of political responsibilities in various parts of the world, is appropriate to the present international position.

So far as Canada is concerned, I believe that all aspects of

policy require re-examination, too, in order to determine whether our policies are appropriate to our present international position. In many respects our situation is less clear cut than that of either the United Kingdom or the United States, since we are in a sense creditor of one and debtor of the other. But I think on the basis of our past record that I am entitled to ask you to believe that we shall approach this problem realistically, and that we shall not expect anyone to go further in making adjustments than we are ourselves prepared to go on the Canadian side.

What is required at the present stage, in our view, is to face our problems realistically and with understanding of each other's difficulties. With the good will on all sides which we know to be present, we are certain that out of these meetings there can come the beginning of a new and more hopeful turn in the events that have brought us here.

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