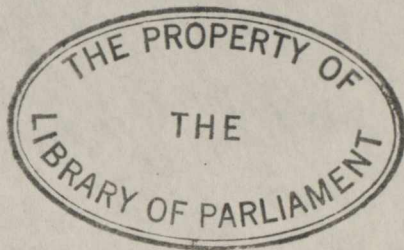


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SESSION 1952-53

THE SENATE OF CANADA



Proceedings of the
STANDING COMMITTEE ON

CANADIAN TRADE RELATIONS

in respect to the urgency in what, in their opinion, might be
the most practical steps to further implement Article 2
of the North Atlantic Treaty.

WEDNESDAY, MARCH 25, 1953

The Honourable A. N. McLENN, Chairman

WITNESSE

Dr. G. W. Langlois, President, Canadian Council of Trade

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WEDNESDAY, MARCH 25, 1953

The Honourable A. N. McLEAN, Chairman

WITNESS

Dr. A. M. Landsberger, Economic Consultant, Quebec Board of Trade.

CANADIAN TRADE RELATIONS

The Honourable A. N. McLEAN, *Chairman*

The Honourable Senators:

Baird	Duffus	McDonald
Bishop	Euler	McKeen
Blais	Fraser	McLean
Buchanan	Gouin	Nicol
Burchill	*Haig	Paterson
Campbell	Howard	Petten
Crerar	Hushion	Pirie
Daigle	Kinley	*Robertson
Davies	Lambert	Turgeon
Dennis	MacKinnon	Vaillancourt—(30)
Dessureault	MacLennan	

35 Members—(Quorum 7)

*Ex officio member

ERRATA

The following corrections should be made in the printed proceedings, dated Wednesday, March 25, 1953, of the Senate Committee on Canadian Trade Relations in respect to the inquiry into what, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty:—

- Page 8, line 13:* Delete "your" and substitute "our".
- Page 8, line 35:* Delete "Chamber" and substitute "Chambers".
- Page 8, line 43:* After "step" insert "which".
- Page 9, line 54:* Delete "the".
- Page 11, line 38:* Delete "government" and substitute "governments".
- Page 18, line 18:* After "They" insert "should".
- Page 22, line 12:* After "will" insert "not".
- Page 22, line 23:* Delete "can" and substitute "cannot".
- Page 23, line 52:* Delete line 52 and substitute "of imbalances. It was thought as an instrument sufficient to".

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Thursday, February 26, 1953:

"That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—"They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(a) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(b) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all".

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry.

L. C. MOYER,
Clerk of the Senate."

MINUTES OF PROCEEDINGS

WEDNESDAY, March 25, 1953.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 10.30 a.m.

Present: The Honourable Senators: McLean, *Chairman*, Bishop, Buchanan, Crerar, Davies, Duffus, Euler, Haig, Howard, Kinley, McDonald, Petten, Pirie, Robertson, Turgeon and Vaillancourt.—16.

The Committee proceeded to the consideration of the order of reference of February 26, 1953.

Dr. A. M. Landsberger, Economic Consultant of the Quebec Board of Trade in foreign trade matters, was heard.

On motion of the Honourable Senator Crerar, it was resolved to report as follows:

The Committee recommend that it be authorized to print 800 copies in English and 200 copies in French of its proceedings in respect to the inquiry into what, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty, and that Rule 100 be suspended in relation to the said printing.

Further consideration of the order of reference was postponed.

At 12.15 p.m. the Committee adjourned to the call of the Chairman.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Wednesday, March 25, 1953.

The Standing Committee on Canadian Trade Relations which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 10:30 a.m.

Hon. Mr. McLEAN in the Chair.

The CHAIRMAN: Honourable senators, I will now call the committee to order. As honourable senators know, this is the first meeting of our committee since reference was made to us of a resolution introduced in the Senate on February 12 and after considerable debate was passed, and referred to us on February 26. For the benefit of all I will now read the resolution.

Hon. Mr. BEAUBIEN: Take it as read.

Hon. Mr. McGUIRE: I think the resolution should be read. If we are working on something, we want to know what it is.

The CHAIRMAN: This is the resolution:

That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—"They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

2. That, notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(a) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(b) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all".

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers and records, and to secure such services as may be necessary for the purpose of the enquiry.

Honourable senators, we have with us today Dr. Alfred M. Landsberger, Economic Consultant for the Quebec Board of Trade, who is to present a brief on behalf of that important organization. I should first like to read a letter addressed to myself from the Quebec Board of Trade, reading as follows:

This Board is very glad indeed to see that you have taken the initiative and that you and your committee will study ways and means for improving economic collaboration between NATO nations.

We wish to assure you of our co-operation in this matter at all times as much as we can.

Dr. Alfred M. Landsberger, our economic consultant, on whose advice we act in matters concerning international trade will represent this Board of Trade before your committee and explain what practical steps, in your opinion, should be taken for a solution of this problem.

Sincerely yours,
 THE QUEBEC BOARD OF TRADE,
 ROGER VEZINA,
General Manager.

I will now call on Dr. Landsberger.

DR. ALFRED M. LANDSBERGER: Honourable Senator McLean, Hon. Senators, members of this Committee. I consider it a great honour to have the opportunity to appear before this committee and to state our opinion on the important problem now being investigated by this committee.

In a letter to Senator Robertson after his speech in the Senate of December last, in which he advocated efforts to improve economic relations between the NATO nations, the Quebec Board of Trade stated that in its opinion improvement of economic co-operation between nations of the free world is one of the most urgent economic tasks of our time; and that representatives of this Board of Trade would be glad to appear before the Senate Committee and explain how in our opinion the NATO nations can improve their economic co-operation.

We are very glad indeed that Senator McLean has taken the initiative, and that this matter will be examined by the Senate's Standing Committee on Canadian Trade Relations.

The Quebec Chamber of Commerce has been working on this problem for some time. As a member of the Canadian Chamber of Commerce, the Quebec Board of Trade has suggested, in accordance with my advice to the Canadian Chamber of Commerce about a year ago, that they should study in co-operation with the Canadian government and interested organizations of business men of other countries, the possibilities for the improvement of international collaboration as a means of improving economic conditions throughout the free world. At the same time, the Quebec Board of Trade submitted a proposal to the Canadian Chamber of Commerce concerning the first step we believe is a prerequisite for a solution of the problem.

The suggestion of the Quebec Board of Trade was made available, through the Canadian Chamber of Commerce, to the members of the Canadian Delegation in advance of the Commonwealth Economic Conference. We had the satisfaction to see, from the final communique issued by the conference, that an international plan on the lines as suggested by the Quebec Board of Trade had been adopted by the British Commonwealth of Nations. However, the specific steps for putting this plan into practice are not stated in the communique. Everything depends on whether the international co-operation will be adequate for the purpose. The Quebec Board of Trade has therefore submitted further suggestions which are being studied by the Foreign Trade Committee of the Canadian Chamber of Commerce.

Permit me first, honourable senators, to explain how we suggest to tackle the problem of improving international economic collaboration between all the democratic nations outside of the Iron Curtain. Afterwards I shall comment on the problem of adequate co-operation between NATO members.

Allow me to go into the matter more deeply in order to prove the importance of the problem and the urgency of its solution, and because I should like to build up as secure a foundation as possible for a basic solution.

A country alone cannot achieve highest possible living standards within the shortest possible time. Foreign goods and services, as well as foreign loans and investments, are needed. This is an established fact; I need not prove it further. Economic relations between nations are therefore not a luxury but are essential. Economic isolationism is not a sound policy. Consequently, since we must have international economic relations, it is of paramount importance for the western world that economic relations between free nations are carried on on a sound basis.

A proposal concerned with the improvement of international economic co-operation must first of all satisfy one basic requirement. The suggested method of co-operation must create conditions stimulating private initiative in the sphere of foreign trade and investment. In a private enterprise system, the driving power behind all economic progress is the initiative of the private enterprise. If this initiative is hampered it is impossible for the economic system to function properly.

When we examine today's situation of private enterprise in the sphere of foreign trade and investment we certainly cannot say that it is satisfactory. Private business encounters many difficulties. Foreign capital investment is generally impossible for private enterprise, due to the risks concerning withdrawal of capital and profits in most of the countries. It is extremely difficult for the business man to develop external markets, due to the unstable conditions caused by the continuous economic emergencies. A basically unfavourable climate prevails everywhere for foreign business.

The consequences of this situation appear clearly in over-all economic conditions of the western world. Economic development in areas with low living standards is unsatisfactory. This is a serious economic defect, because economic development provides the greatest possibilities for an increase in demand. Besides, this deficiency creates political problems of the most serious nature. Unsatisfactory living conditions are an important reason for people to follow Communist ideas. Due to the obstructions and restrictions private enterprise is confronted with today, international business is unsatisfactory everywhere. Economic expansion and progress is retarded more or less in most countries.

When examining the government policies and measures which create this unfavourable climate for private initiative in the field of foreign trade and investment, we find that most of the controls and restrictions have the task of preventing balance-of-payment difficulties.

This leads us to the basic principle by which all international economic intercourse is governed. International trade is a two-way affair.

If a country wishes to have foreign goods or services it must be able and ready to pay for them ultimately with exports of goods or services. Dividends and interest derived from investments on loans made in foreign countries must be included as appropriate payment for imports. On the other hand, a nation which has used foreign loans and investments can pay the interest and dividends and make repayment of the loans and investments only with exports. A country cannot cover an import deficit indefinitely with loans or investments received from the other countries.

Hon. Mr. HAIG: Mr. Chairman, some of us feel that we know this story as well as my friend does. Let him tell us how these conditions can be cured.

Take Iran, for instance: let him tell us what the British could have done in Iran that they have not done and how trading can be resumed. Then, the United States made a deal at Geneva, but they are not carrying it out.

The CHAIRMAN: I think, if we have a little patience, Dr. Landsberger will come to that.

Hon. Mr. HAIG: He is giving us a philosophy which all of us know. At least I think we do: private enterprise. But what follows? How am I, as a private Canadian citizen, to be encouraged to put money into Iran?

The CHAIRMAN: Iran is not a NATO country.

Hon. Mr. HAIG: What incentive have I to put my money into, say India? I want to get my money back, so therefore I won't put it in.

Hon. Mr. McDONALD: Mr. Chairman, let us hear the witness.

Hon. Mr. KINLEY: Let him lay the foundation.

Dr. LANDSBERGER: I am building up to that; and in order to show how one can do it I thought first, since I have not the chance to appear here every week, I had better build it up from scratch.

Hon. Mr. EULER: You are coming to your remedy a little later, after explaining the conditions.

Dr. LANDSBERGER: Yes, but based on principles which sometimes are apparently not recognized, but are the basis for the conclusions. I want to build up to these things. Within fifteen or twenty minutes you will have what we think should be done in order that the objective of foreign investment can be achieved.

Hon. Mr. HORNER: Go ahead.

Dr. LANDSBERGER: I was just saying that the best interest of a nation which wishes to export goods or services requires that its exports are covered, ultimately, by imports. Some nations apparently, Senator, do not know this; or, if they know they do not act accordingly. The attempt to balance a persistent export surplus constantly by giving loans to or making investments in foreign countries must ultimately lead to trouble. Only under extraordinary circumstances are gifts of goods and services made to other countries in one way or the other justified economically. This applies to both the giving and the receiving nations.

No country can, in the long run, escape the adverse consequences if it does not act in accordance with the principle that foreign trade is a two-way affair.

The international trade of a nation does not flow smoothly in both directions by itself. A nation constitutes an economic unit distinct from others. This fact creates problems for international economic competition. There are different economic conditions in the different countries, due to differences in economic structure, economic resources, and stage of economic development, due to different political institutions and policies pursued, and due to other reasons. These differences cannot be changed easily. Some cannot be changed at all. This fact creates problems for international competitiveness.

Furthermore, changes in the economic situation of nations may disturb the flow of trade.

International trading relations may, therefore, cause balance-of-payment problems. They may affect internal economic stability. Now the problem is to find the best way for preventing ill-effects and to derive the greatest advantage for national and international economic conditions from trading relations between nations. I have mentioned the reasons why settlement of these problems cannot be left to itself. Nor can they be solved by the individual businessman. These are problems of national and international interest which can only be tackled by government.

From the adverse consequences on private initiative and on economic conditions which I described before it is manifest that the present governmental measures for solving the economic problems arising from international economic contacts are not adequate. It will help to find a better way for coping with these problems if one examines their nature and traces the difficulties back to their origin. Surely, many problems and difficulties can be solved only by taking appropriate internal action. The own house must be put in order. However, usually the problems are of an international nature. That is, the reasons for them do not originate solely in the country in trouble but partly or even wholly outside. These problems cannot be solved in the best way without international co-operation.

I already mentioned that all these problems, directly or indirectly, and more or less, concern the balance of payments of a country. Today, we do not have adequate international collaboration in balance-of-payment matters. This is, then, a serious defect of the economic organization of the free world. As nations pursue, today, an attitude of non-co-operation or indifference in balance-of-payment problems governments have to cope with these problems alone. If a government has to struggle against disturbances from outside alone without the cooperation of other governments the most effective method is direct control over foreign transactions. In most cases this direct control will result in restrictions destructive of trade and detrimental to the efforts of private business to develop foreign markets. Governments have, today, no other way although they are aware of the adverse consequences for economic conditions.

The existing instruments of international economic co-operation, the General Agreement on Tariffs and Trade and the International Monetary Fund, reflect clearly this attitude of nations in balance-of-payment problems. None of the two instruments contains adequate rules concerning international collaboration in balance-of-payment problems. The devices in GATT and IMF for facilitating adjustments are, as experience proves, inadequate. As a consequence, GATT and IMF must accept the restrictive controls considered detrimental to our economic system by everybody as legitimate measures.

An attempt of inducing governments to abolish today's commercial policies and restrictive controls detrimental to private initiative and to economic conditions can only succeed if the suggested substitute measures will safeguard external equilibrium against foreign disturbances as well as the present measures do. Otherwise governments will not give up the present measures. In other words, whoever wishes freer trade should not try to achieve this goal by merely asking government to remove the present restrictions. This is a useless attempt as experience shows.

If this analysis is correct the solution is an adequate system of cooperation between nations in balance-of-payment matters.

As I mentioned at the beginning, achievement of highest levels of economic prosperity, of adequate development and progress all over the free world requires international cooperation. Cooperation in balance-of-payment matters is the foundation for this collaboration. Without an agreement on adequate rules for the behaviour of nations in balance-of-payment matters no effective international economic cooperation can be established.

In the following I shall name some of the main tasks of an agreement concerning international co-operation in balance-of-payment matters.

- (1) The obligations of governments must be determined concerning avoidance of disequilibrium in the economy of other nations.
- (2) The responsibilities of governments must be defined concerning the maintenance of an equal flow of their own exports and imports of goods and services.
- (3) The role which foreign loans and investments have in international economic relations and, specifically, in trading relations must be determined.

The obligations and rights of governments in this respect particularly in connection with the repayment of foreign loans and withdrawal of foreign investments and with payments of dividends and interest to foreigners must be determined.

(4) The agreement must make sure that governments in fulfilling their obligations choose as much as possible their policies and measures in harmony with other governments so that the best results are achieved.

(5) The agreement must contain a clause to the effect that a government is entitled to carry out its obligations arising from this agreement in harmony with its internal economic policies.

(6) The agreement should provide for an international permanently functioning body of experts which has the task to watch developments and to make recommendations as a basis for consultation between the governments of signatories.

I would like to remark here that the existing instruments of international economic co-operation like the International Monetary Fund would have much more important functions than today when properly adapted to the suggested system of co-operation in balance-of-payment matters.

To plead for international co-operation in balance-of-payment matters is not to plead for charity. It is the best business proposition of our time. The task of keeping a country's international trade flowing in both directions concerns all nations. Financial crises arising from external disequilibrium of a country affect adversely all nations. It is in their own interest that they avoid any action which may cause such difficulties. Once it has been accepted by the nations of the free world that maintenance of national external equilibrium is a matter of international concern, it will not be difficult for them to establish an adequate system of co-operation in balance-of-payment matters and to agree on rules to follow in the solution of the problems involved.

Just a few words about the beneficial consequences of such international economic co-operation for economic conditions of the free world.

The establishment of definite rules to be followed by all nations in matters concerning the maintenance of an appropriate external equilibrium for each country will render it unnecessary for them to resort to the direct controls they employ for this purpose at present. Adequate international co-operation will make smooth and satisfactory adjustments in the national economy possible. Expansion of exchange of goods and services between nations will become a most attractive business proposition for the domestic producer. Consequently, he will support his government in all efforts to open up the national economy as much as possible for world-economic intercourse. This will help to remove many measures harmful to private initiative the justification of which, today, is, mainly, the difficult situation of international trade. Straightening out of imbalances in an expanding way will be easier than today because this will be possible on a multilateral basis comprising the entire free world. Today, these problems are complicated because equilibrium must be sought between a limited number of countries, frequently even between two. Co-operation in balance-of-payment matters will help to eliminate financial difficulties resulting from the withdrawal of foreign capital and profits. It is mainly, these financial difficulties which, today, force countries to prohibit such withdrawals. As a result, private enterprise will again be a major factor in the development of underdeveloped areas and of resources in general. Then you will see what progress economic development will make throughout the free world. The resulting large increase of demand will help to overcome many of today's seemingly insurmountable difficulties caused by the pressure of national interests for protection against foreign competition.

Effective international co-operation in balance-of-payment matters does not require interference with policies concerning domestic matters. The primary aims of such co-operation can be brought into harmony with domestic

policies for maintaining internal stability and full employment. In fact, smooth and satisfactory adjustments of foreign disturbances are a primary task of this co-operation. It must be left to each individual country to decide, e.g., what restrictions to abolish and when to abolish them. If a country, e.g., wishes smaller international trade and more protection of the domestic economy, it must be free to decide this course. However, as I have explained, it can safely be assumed that an adequate system of co-operation in balance-of-payment matters will lead to a considerable improvement of trading relations between nations. They will therefore, generally, not find it advantageous to decide such a course.

Naturally, there will always be economic conflicts between nations. Differences of economic conditions between the various countries will always create problems. However, there cannot be any doubt. International conflicts and problems can be solved more easily if countries work systematically together on their solution.

The conclusion of my analysis is then: Any attempt to, fundamentally, improve economic co-operation between the democratic nations of the free world must start with systematic collaboration in balance-of-payment matters. Nations must agree on adequate rules for this collaboration.

Before I comment on the problems concerning improvement of economic collaboration between NATO nations I should like to demonstrate on two examples the value of systematic international co-operation in balance-of-payment matters.

First example: The U.S.A. are constantly urged to increase her imports. Many say that all the economic difficulties of the free world would be eliminated if the problem of dollar shortage was solved. It is only natural to ask an export-surplus country to import more. However, under present conditions, it is not at all sure that advantages for the U.S.A. economy would result from an increase of her imports. Today, the U.S.A. will consider it more advantageous to preserve as much as possible, the home market for the domestic producers. Besides, the increase of imports is not only a matter of governmental action of the country that is asked to increase its imports. The U.S.A., as well as any other export-surplus country, will probably ask, today: What about the own share of countries wishing to increase their exports in helping to make the products of their economies more competitive? What is the exporter himself doing in this respect? What about the restrictions against imports in other countries? One should also consider that the world economic conditions influence greatly the economic situation of individual countries. Without a change of these underlying conditions the pattern of international trade cannot be fundamentally changed. But let us assume for a moment that U.S.A. exports and imports were straightened out. Governments of other countries could still not remove their controls for two reasons. Firstly, they do not know, today, without any definite policies of the U.S.A. in this respect, how long such equilibrium will last. As no other country has committed itself to such definite policies it cannot be expected from the U.S.A. that she will commit herself. Secondly, the other existing balance-of-payment problems, besides the dollar-shortage, can be solved without adequate co-operation, only through direct controls.

No, this is a piecemeal approach which can, surely, not solve the dollar shortage as satisfactorily as if nations work together systematically on their balance-of-payment problems. Moreover, I wish to state here that a solution of the dollar-shortage problem does not solve all today's international economic problems of the free world. There are numerous difficulties in this sphere which have other reasons. They can be solved best and fundamentally only through an adequate system of international economic co-operation.

The suggestion of the Quebec Board of Trade to solve the dollar-shortage problem may not be in line with the usual ideas. However, my statement

should not be misunderstood. Although, in our opinion, no satisfactory results can come from merely asking the U.S.A. to increase her imports as long as international economic relations are not changed fundamentally, it is, of course, in principle, a suggestion in the right direction. As such it draws the attention of the American public to one of the most serious problems the nations of the free world are confronted with today for which a basic solution must be found. Thus, it will help the U.S.A. Government to obtain support from the American public in any effort to introduce adequate foreign economic policies. U.S.A. leadership is of the greatest importance for the adoption of an adequate system of co-operation in balance-of-payment matters by nations of the free world.

Second example: The problem of free convertibility of the pound sterling occupied an important place in the discussions of the British Commonwealth Prime Ministers at the Commonwealth Economic Conference last December. The final communique contained an international plan outlined basically only according to which convertibility of the pound was, apparently, sought as part of a world-wide arrangement aiming at a fundamental solution of the problem of convertibility for currencies of all free nations and requiring systematic international co-operation. This is, in our opinion, the best way to solve the problem.

The joint communique issued in Washington on March 7 by the representatives of the U.S.A. and the United Kingdom after their economic discussions leaves the impression that this course will be continued. As in the communique of the British Commonwealth Economic Conference, improvement of economic conditions of the free world is, apparently, aimed at through concerted international action.

However, although some of the—and I quote here from the communique—“essential elements of a workable and productive economic system within the free world” are mentioned, the measures through which the desired conditions are to be reached have, apparently, not yet been determined. Anyway I cannot see anything in the public statements which would indicate the intention to take the absolutely necessary first step, namely to write the rules for international co-operation in balance-of-payment matters as a basis for the measures to be taken. Clearly, success or failure of the plan depend on the methods chosen for tackling the problems. The Bretton Woods Agreements, e.g., have the same objectives as the present economic talks between the two governments. However, these objectives have not been reached because of the inadequate means devised by the signatories of the Bretton Woods Agreements.

Whatever will become of this plan, we wish to state here that, in our opinion, (1) it would be much more difficult to make the pound convertible, on a lasting basis, if the problem of convertibility was not solved fundamentally for all currencies, which latter is possible only through adequate international co-operation in balance-of-payment matters; and (2) even the support of the pound by a nation economically so important as the U.S.A. would not be an appropriate substitute for systematic international co-operation in balance-of-payment matters when attempting to solve the problem of convertibility of the pound sterling on a lasting basis.

Now, some comments how, in our opinion, economic co-operation between NATO nations can be improved and how a project of economic co-operation between NATO nations can be co-ordinated with the trade policies of other countries of the free world.

Economic conditions of NATO members are governed by the same principles as those of other nations of the free world. NATO members are confronted with the same economic problems. These problems must be solved in the same way as those of the other nations. Therefore, in accordance with

the foregoing analysis and conclusion, the task of improving economic relations of NATO nations should be started with an attempt to bring about adequate co-operation between them in balance-of-payment matters.

International economic problems can usually be solved best if all nations having mutual economic relations co-operate in their solution. Some problems would then arise if the principle of multilateral balancing of trade were limited to NATO nations instead to all nations outside the Iron Curtain.

However, there are at least two reasons why an attempt to bring about an improvement of economic collaboration between all nations outside the Iron Curtain should begin with an attempt to bring NATO nations together for this purpose. Firstly, NATO members are, by far, the most important trading nations of the free world. Once NATO nations have agreed on a system of economic co-operation the rest of the free world cannot stay outside. Secondly, economic strength of NATO nations will strengthen NATO's military alliance. Thus, economic strength of NATO nations may help to stop aggression and to avoid war. NATO nations should be especially interested in finding ways for efficient economic co-operation.

Consequently, I conclude: an attempt to improve economic relations between democratic nations as a means to achieve and maintain prosperous economic conditions throughout the free world has a very good chance to succeed by, first, attempting to bring about adequate co-operation between NATO nations in balance-of-payment matters.

The problem of how to improve economic co-operation between free nations is of great importance and its solution is very urgent. The enemy will not attack unless he believes that he will win. One way to strengthen his position is to draw more and more countries to his side. Each country going over to Communism weakens our position and brings war closer. In peace-time serious economic troubles and low living standards help those who work against democratic institutions. Adequate economic co-operation between free nations is a prerequisite for satisfactory living conditions of their peoples.

Free nations, increasingly, realize, today, that their present economic co-operation is inadequate and that, in view of the serious world situation, a fundamental solution is urgently required. I am convinced that if Canada submitted a proposal for a solution it would be received enthusiastically by all free nations. The free world is waiting for a solution.

Thank you very much, Senator McLean and honourable senators, for the patience you have shown in listening to my statement. We shall be very glad to co-operate with this committee, if you are further interested in our opinion.

The CHAIRMAN: Do any honourable senators have questions to ask of Dr. Landsberger?

Hon. Mr. EULER: If I followed the doctor's argument, his remedy is based almost entirely on the arrangement of some method for the balance of payments between countries.

Dr. LANDSBERGER: Yes, as a starting point.

Hon. Mr. EULER: Would that not be conditional upon the establishing of convertibility?

Dr. LANDSBERGER: Senator, it is just the other way around, in our opinion. We can achieve convertibility of currencies on a lasting basis only after we have agreed on satisfactory rules for co-operation in balance of trade problems. Without such an agreement we cannot fundamentally resolve the problem of convertibility because, for instance you may have today external equilibrium but you will not know whether tomorrow you will have that equilibrium. Under these circumstances, I, as a statesman of a country, would be very unwise to give up my direct controls; but adequate rules for the co-operation in balance of payment matters will assure orderliness in this sphere on a long term basis and will help that governments can abandon the present controls.

Hon. Mr. EULER: But being realistic, how will you bring about this co-operation between the various countries for the balance of payments? What is your way of doing that?

Dr. LANDSBERGER: Everybody says today that foreign trade is a two-way affair.

Hon. Mr. EULER: Yes.

Dr. LANDSBERGER: Mr. Butler stated just yesterday, in a discussion with the OEEC members five or six points—you may have seen it—which have the same aim namely to straighten out balances. What the United States and every other country is striving at,—the European Payments Union, and the Commonwealth Economic Conference, etc.—is aimed at one thing, the removing of the disorder in international trading relations. Now, I ask myself, how can one best remove the disorder? I say that all these attempts neglect the first step, which is to write basic rules. Following that, one can start with all these measures. If it is generally admitted that foreign trade is a two-way affair, that exports must be covered finally by imports, then let us write down this as a rule first. When countries agree at the conference table, that they will do their best to translate this principle into action, you will then see how much more easy it will be than today to achieve equilibrium.

Hon. Mr. EULER: Tell us what, in your opinion, these rules should be?

Dr. LANDSBERGER: Well, I have just named 6 of the main tasks in my testimony. No. 1, responsibilities of governments must be defined concerning the maintenance of an equal flow of their own exports and imports.

Hon. Mr. EULER: How will you bring that about?

Dr. LANDSBERGER: Well, Senator, there is no magic formula for that. We have dozens, indeed hundreds of problems which must be coped with, each individually. But I repeat that so long as there are nations who do not see the importance of working together the solution of these problems will be much more difficult. If we can get them together they will solve these difficult problems together, and that will be easier than under today's conditions, where there are no rules for guidance.

Hon. Mr. EULER: Your idea would be to get them together and discuss the whole thing and arrive at some solution?

Dr. LANDSBERGER: Not for a specific problem. Basically, we have first to decide how we shall behave in balance-of-payment matters. First we must get nations to accept that foreign trade is a two-way affair. Many nations do not act accordingly today.

Hon. Mr. HAIG: The United States have arrived at just such agreements, and now they refuse to carry them out. What are we to do? They have cut our cheese and milk exports. They agreed they would not do it, but now they are doing it. What do you suggest we should do?

Dr. LANDSBERGER: The only thing is, first, to get them to accept this principle which everybody says is the only right one.

Hon. Mr. HAIG: Everybody but the fellow who is going to get caught by it. The United States is a country which does not need to import anything except raw materials.

Dr. LANDSBERGER: Well, Senator, —

Hon. Mr. HAIG: Just a moment. They do not put this principle of yours into practice. All the concessions they give are for one purpose and one purpose only. They are afraid of war, and they have got to take enough imports from other countries to get them going so they will be ready to fight for them in the event of war. Whether you like it or not, that is the situation. Why should a Canadian, who works forty hours a week, have to admit goods

from Germany, where they work sixty hours a week? Maybe we should do it, but our people are not going to do it so long as they can carry on without doing it. You can put that in your pipe and smoke it.

Dr. LANDSBERGER: May I answer this point now?

Hon. Mr. CRERAR: Mr. Chairman, —

Hon. Mr. HAIG: Wait a minute. . . . I want to ask the witness a question, the question I asked at the start. What, under these circumstances, are you going to do? The British government and British investors spent large sums of money in Iran under a contract to take out oil. The Iran government said "Nothing doing, you can't take it out." What are you going to do? How are you going to get people to invest money in Indo-China under existing conditions? Remember, we loaned the Chinese many millions of dollars; we also made large loans to France and Italy. None of these countries is paying us back; some are giving us blocked currency which we can spend only in their countries; we cannot convert it into dollars. That is the situation which exists more or less everywhere. I should like to know how you propose to solve it. I know your theory that we cannot sell to other countries unless we buy from them. Any twelve-year-old school boy knows that. But what I should like to know is, how you are going to get the United States to cut down its standard of living in order to take goods from these other countries.

Dr. LANDSBERGER: Senator, I mentioned something in this connection in my statement. I said, if you ask for such measures from the United States today the reply will be very unsatisfactory. But if we can get the nations together to work out their balance of payment problems there is a chance of creating more production,—

Hon. Mr. HAIG: Not if I know the Yankees.

Dr. LANDSBERGER: There will be more economic development, and then the U.S.A. will be able to act in the right direction.

Hon. Mr. EULER: I think I like that idea of getting together. The only thing that more or less concerns us now is that the nations—many more than those which are members of NATO—got together at Geneva, at Havana, and finally at Torquay, and they were supposed to solve certain international trade problems by the removal of restrictions and agreements not to have exclusive tariffs. But all this has not been carried out. Can it be hoped that in any future conference we would have more success? Is that your idea?

Dr. LANDSBERGER: If you look at the regulations laid down in the Monetary Fund, you will find that they reflect an unsatisfactory attitude of nations, in respect of the most important problem, that trade is a two-way affair. If you have insufficient or unsatisfactory co-operation in that point, the means you devise—the Monetary Fund, GATT, etc.—must be unsatisfactory. That is how I would answer that point. First, they must have a clear mind on what they basically have to agree upon. Then, I say, it will be possible to devise adequate measures and methods. If they do not agree to co-operate on the principle that foreign trade is a two-way affair, the means which they decide upon will always be insufficient, as the means embodied in the Monetary Fund show.

Hon. Mr. EULER: You will agree that the vital factor in all this is really the United States?

Dr. LANDSBERGER: May I again say, it is true the United States is economically the most important country of the free world.

Therefore, as I have said in my statement, it is most important that the United States assume the leadership in solving the numerous balance-of-payment problems besides the dollar shortage.

Hon. Mr. EULER: I am in sympathy with your ideas, but I still say that unless you have the United States participating wholeheartedly in any proposed scheme, you are not likely to make a success of it. I am doubtful if you can get them to go into such a scheme wholeheartedly because so far they have not played the game with us.

Dr. LANDSBERGER: It is my contention that you will not get anywhere if you go to the United States and ask them to increase imports. I do not think that would do any good. The United States could not do that even if they wanted to, because the underlying conditions must be changed.

As the present methods have proved to lead nowhere and the problem is pressing it is my hope that the U.S.A. will assume the leadership in finding better methods.

Hon. Mr. BEAUBIEN: With respect to the economic phases of the NATO agreement, would the signatory countries to this agreement have to establish certain principles and work from there on? Have they been doing this? Could you deal with that a little bit?

Dr. LANDSBERGER: As I said, I feel it is wise to start with the NATO nations because they are closely associated militarily. They begin by getting together and writing down the basic rules for co-operation in balance-of-payment matters. Then when the rules are written they can devise certain measures.

Hon. Mr. BEAUBIEN: Are you of the belief that the countries belonging to NATO should bring about a certain set of rules which they have not got today?

Dr. LANDSBERGER: Yes, they have not got such rules at present.

Hon. Mr. BEAUBIEN: And when those rules are accepted and established you are of the opinion that the countries belonging to NATO will have a great deal more economic co-operation?

Dr. LANDSBERGER: After agreement on these rules they will devise the measures to translate the rules into action. The other countries of the free world will not be able to stay outside.

Hon. Mr. BEAUBIEN: You believe these rules should be established first by the countries that belong to NATO?

Dr. LANDSBERGER: I think agreement between NATO nations would be a good start.

Hon. Mr. HORNER: I should like to apologize for the lack of patience on the part of some honourable senators.

Hon. Mr. HAIG: Do not worry about that.

Hon. Mr. HORNER: I should like to assure the doctor that when I attempt to talk bluntly and briefly about these matters some people do not like it. Mr. Chairman, you set up this committee to get information and you have a real expert before you. He has presented a fine paper. I should like to ask him if he has made any study of what happened as a result of the Bretton Woods agreement. What does the doctor think of that?

Dr. LANDSBERGER: I made a short remark on that point too. I said that since adequate rules for behaviour of nations in balance-of-payment matters, were not agreed upon at that time, the means devised are inadequate.

Hon. Mr. HORNER: I agree with your emphasis on the establishment of some agreement on a permanent basis. I believe you pointed out in your paper the fear that the United States has that conditions might vary in a year or so. Any trade agreement will have to be reached on some permanent basis.

Dr. LANDSBERGER: That is the only solution. I may compare today's way to solve the difficulties with an open wound, which appears on the surface

as a result of a basic sickness. It is no use to patch it up. If you go to the United States because there is a dollar shortage and you say "All right, import more", this can, in my opinion, not lead anywhere.

Hon. Mr. BURCHILL: Let us discuss the rules a little bit more. Supposing the NATO nations were gathered together and they were going to discuss these rules. I should imagine the approach would be, as you have indicated, to establish a balance of imports and exports for every country. That would be the basis for it, would it not? Now, in order to work that out, would not the governments have to step in with some measure of control over imports and exports?

Dr. LANDSBERGER: This is a very important point, and here is the change which I think will be achieved by that co-operation. At the present time, in order to keep that balance and not have internal troubles, foreign exchange troubles, and so on, a government must get hold of foreign transactions through direct control.

Hon. Mr. BURCHILL: Then you are going to have government control enter into the picture.

Dr. LANDSBERGER: If I want to get rid of this control and I ask myself how can I do it? My answer is through co-operation between governments in the end indirect policies will be sufficient, and there will be no longer any need for direct controls. This is what I should like to see achieved through co-operation. Adequate financial, monetary, or fiscal policies, suitable exchange rates and other measures of co-operation will achieve the aim which now only direct controls can achieve.

Hon. Mr. CRERAR: I should like to ask the doctor a question. I may say before I ask it that I think he has given a very clear analysis of the whole problem affecting the world today in an economic sense.

I will try and speak in a tone of voice that I can be heard. Let me repeat, I think the analysis given by the doctor is a very clear analysis of the whole problem. It is, briefly, that if you are to restore the equilibrium of the world on the balance of payments, a prerequisite is free trading between the nations.

Hon. Mr. HAIG: He did not say that.

Hon. Mr. CRERAR: Now, when it comes to industrial problems, is the program not mainly a political problem? That is the question I wish to ask the doctor. For instance, if the NATO countries got together their governments and said, "Well, now we can help to solve this problem by the removal of tariffs among our group of nations; we can help to solve it by the establishing of confidence and by permitting the free movement of capital for investment." And we might add one other thing, perhaps, "by permitting the free movement of peoples." Now, in order to achieve that, is the problem not a political problem largely? If the United States goes to such a conference and agrees to a program such as I have just mentioned, could they carry that politically in their own country? If our Canadian government did, could we carry it politically in Canada? If, for instance, the Canadian government today proposes to remove the tariff on British textiles coming into Canada—remove it entirely, that would largely stimulate the importation of British textiles into Canada, and through that means Britain would find a way of buying our wheat and timber and the other things she buys from us. But the difficulty there, and I do not think the doctor can offer a solution for it, is mainly a political problem, as I see it, that is, to convince the people of each of these countries that this is a necessary and desirable thing to do.

Hon. Mr. DAVIES: Would that not ruin the textile industry in this country, Mr. Chairman.

Dr. LANDSBERGER: May I answer?

The CHAIRMAN: Yes.

Dr. LANDSBERGER: Honourable senator, you said it leads to free trading.

Hon. Mr. CRERAR: No, I did not; you misunderstood me.

Hon. Mr. HAIG: You said that.

Hon. Mr. CRERAR: I said if that happened, would that add in finding a solution for the problem.

Dr. LANDSBERGER: Well, of course, what we are trying to do is to give the private business man a freer hand. But it does not mean that we want the governments just to remove the barriers. The national interests must always be safeguarded. If governments agreed to do basically what is necessary that the order in international economic relations be maintained, I contend that fewer restrictions will be necessary than today.

Hon. Mr. CRERAR: When you speak of removal of controls, doctor, am I correct that you have in mind mainly the European countries. For instance, what controls have we today outside of tariffs?

Dr. LANDSBERGER: Well, the United States has a number of invisible controls. It is not only the measures themselves which hamper trade. The underlying conditions restrict international trade.

Hon. Mr. CRERAR: Very well. Let us assume all the controls are removed, that your condition is met. What follows then? Do you think that would immediately stimulate or increase an exchange of trade between these various countries?

Dr. LANDSBERGER: I do not think removal of controls will stimulate trade, senator. The first thing is to create order, I suggest. Just as murder is considered a crime, nations must define actions against order as an economic crime. Barriers may today be considered necessary, for protecting a certain industry. Conditions may be created through adequate co-operation which will make this protection unnecessary. There will then be more advantages from the wider sphere of trade than from the protection of the domestic market. The industry in question will not be wiped out, but will be able to go out into the world market.

Hon. Mr. EULER: What you are advocating, doctor, now, is that the countries that are NATO should discuss the problem?

Dr. LANDSBERGER: Yes, and write rules. That is the first step. It is not a solution itself.

Hon. Mr. EULER: The approach?

Dr. LANDSBERGER: The approach, yes. The first step is to write rules for behaviour in balance of payments.

Hon. Mr. HAIG: What controls as to trade are on in Canada, outside of tariffs; is there any control on trade in Canada?

Dr. LANDSBERGER: As I said already it is the generally unfavourable climate for foreign business. One country alone cannot remedy the situation. Canada is today forced I believe to ask U.S. dollars for her exports.

Hon. Mr. HAIG: But we will take the money.

Dr. LANDSBERGER: But from other countries. If we deal with South America we can only—

Hon. Mr. HAIG: But how can I convert pounds sterling into money that I have to pay people in Canada? That is the problem.

Dr. LANDSBERGER: Senator, I have been trying, through my testimony, to point out the need for writing basic rules on balance of trade matters; through adequate co-operation balance of payment matters external equilibrium will be established in all countries and this will make free convertibility of all currencies possible. This, I hope, answers this point.

Hon. Mr. HAIG: The senator sitting next to me has just said that a recent commonwealth conference was held in London.

Dr. LANDSBERGER: Yes.

Hon. Mr. HAIG: And the minute the conference was over, men were sent to the United States to try to get that country to back the deal or, as we say, to underwrite it. What is your answer to that situation?

Dr. LANDSBERGER: I do not know that they have discussed any basic rules there. I have a clipping of the newspaper account of the points Mr. Butler discussed yesterday with the OEEC members. They are as follows:

1. Establishment of a sound internal economic policy especially in debtor countries;
2. The linking of financial and trade questions because of the necessity of commercial progress hand in hand with monetary progress;
3. Action by debtors and creditors to achieve trade equilibrium especially between the dollar area and the rest of the world;
4. Emphasis on productive investments in an effort to solve the money scarcity;
5. An effort to 'revivify' the international monetary fund and similar international institutions.

But these are measures which in my opinion should come later—

Hon. Mr. HAIG: Of whom did he ask those measures, of the United States?

Dr. LANDSBERGER: Most probably he did, but first there are the rules.

Hon. Mr. HAIG: And he did not get an answer. I do not think that is a proper way to start out for a solution of the problem. They omit the first absolutely necessary step, namely to get the nations to agree on determining what is an "economic crime".

Hon. Mr. DAVIES: Mr. Chairman, you have probably had a wider experience in matters of international trade than any man in this room. I should like to hear your view on this point.

The CHAIRMAN: Honourable senators, I have been extremely interested in what the Doctor has had to say to us; and in the light of my experience in trade around the world, I can see a great deal of food for thought in his remarks. This is an intricate subject, and it is hard to put over, but I think the Doctor has made a very good presentation, in spite of the complicated nature of the subject.

On this point, I should like to ask your view, Dr. Landsberger, on one matter. One of the most outstanding men I know in the economic world suggested not long ago that we should apply to these international payments the same rules as we apply to internal payments, namely that we invoke the Statute of Limitations. To illustrate that, I might say that when I was recently in the United States, New Zealand was pressing that country to take a larger quota of butter. Of course New Zealand is purchasing goods in the United States; I do not know whether it has bonds there as Australia has, but it wants dollars and is pressing the United States to take more butter from them.

The solution which this man gave—and he is an executive of the London Chamber of Commerce, perhaps the largest body of business men in the world—was that if after seven years a creditor nation does not exercise its credits, then the Statute of Limitations is invoked and those credits are wiped out. In other words, the United States has a choice. It may say to New Zealand, we will bring in more butter, but we know we are going to have trouble with our dairy industries. But they would have seven years to bring about a balance of payments. In the meantime those credits will be held by the

central banks of the world, and if the country in question does not exercise them, they can be sold to other nations. I should like to ask Dr. Landsberger what he thinks of such a suggestion.

Dr. LANDSBERGER: If I understand this proposal correctly, it is some kind of clearing arrangement. Such a clearing arrangement must again be based first on an agreement on rules, for co-operation in balance of payment matters.

As long as nations do not submit to the basic rules, a clearing arrangement in my view will not work. Once the basic agreement has been concluded such a clearing agreement should, of course, be studied among all the other measures proposed for execution of the basic agreement.

Senator Davies asked a question a few minutes ago, in answer to which I would point out to him that the textile industry will be in danger.

May I be permitted to read what I said in that regard: "The agreement must contain a clause to the effect that the government is free to carry out its obligations arising from this agreement in harmony with its internal policies." In other words, you cannot interfere if a country decides to protect a certain industry; it may have smaller international trade and more protection if it so wishes.

Hon. Mr. DAVIES: But Senator Haig has just pointed out that we cannot compete with a country whose labour works sixty hours a week at low wages, when our own workers are on a forty-hour week and high wages. How are we going to overcome that difference?

Dr. LANDSBERGER: That is a problem already existing today. We can immediately create a paradise. The problems will continue, but by co-operation and by writing adequate rules we may solve them more easily.

Hon. Mr. DAVIES: By economic co-operation?

Dr. LANDSBERGER: Yes

Hon. Mr. MCGUIRE: Mr. Chairman, I think we should thank the doctor for his long dissertation today, and apologize to him for taking up so much of his time.

Hon. Mr. CRERAR: I should like to ask one question. The doctor laid a good deal of stress on the importance of establishing basic rules. I presume that would be as between the NATO countries. Could he suggest to us what those basic rules should be?

Dr. LANDSBERGER: Since what these rules should be is really the most important point, I may perhaps be allowed to quote these rules again from my testimony. Now, first, the responsibilities of government must be defined concerning the maintenance of an equal flow of their own exports and imports of goods and services.

Hon. Mr. CRERAR: Let us stop there. That is an interesting statement. How would you suggest that governments bring this about?

Dr. LANDSBERGER: Well, each government will do it in a different way. One will do it by financial policies, another, by fiscal policies. There is no iron rule as to how you do that. This is left to each government. There should be a body of experts who will have the task of watching developments—at least I suggest that—and of making recommendations, so that the policies of the various countries are as much as possible in harmony.

Hon. Mr. CRERAR: I would be afraid, doctor, it would be very difficult and a long time before you could get effective results in that way.

Dr. LANDSBERGER: This depends on the degree of deterioration of economic conditions due to the failure to attempt basic solutions. With this patch-work that we are performing now we do not get anywhere. I am just trying to show how it can be done fundamentally. And I have another remark to make in that connection. Governments at present are forced to do just what I suggest. If it comes to a crisis, the government has to adopt policies which bring about

the order suggested by me sometimes alone, and even against the opposition or the indifference of other countries. It is more difficult to achieve equilibrium under these circumstances, than if countries got together. Thus what I suggest is only to attain the goal in a better way.

Hon. Mr. BEAUBIEN: In an orderly way.

Dr. LANDSBERGER: Yes, in a way which promises better results.

Hon. Mr. HORNER: We have been a long time looking for a solution and have not arrived at any, so we should have patience, and not except you, doctor, to solve the matter all at once.

Dr. LANDSBERGER: Senator, I suggest the first step.

Hon. Mr. HAIG: A conference.

Dr. LANDSBERGER: A conference. For the purpose of writing the rules for the behaviour of nations in solving balance of payments problems.

Hon. Mr. EULER: I see nothing wrong with that.

Hon. Mr. TURGEON: May I ask one question, doctor? I want to be sure that I heard you aright, and if so, what effect the thought expressed might have upon this proposed conference. I am not sure that I interpreted you aright. Did you use the word "crime" as applied to a government's desire for an export surplus? Because what I have in mind is this: we have a conference where governments are going to be given the authority to protect certain industries—textiles has been particularly referred to—and if one of the fundamentals of this conference is that an export surplus is to be considered a crime, how can you put the two together? How can the conference bring about the economic solution that you have in mind? I am asking for information.

Dr. LANDSBERGER: Allow me first of all to state that I did not say, that an export surplus is an economic crime.

Hon. Mr. HAIG: No, he did not say that.

Hon. Mr. TURGEON: I was not sure, so I asked you.

Dr. LANDSBERGER: An export surplus is in my opinion, an economic disadvantage for the country which insists on having always an export surplus.—That is it must lead to trouble.—That is what I really meant.

Hon. Mr. EULER: There must be a deficit, arithmetically speaking. Where there are always surpluses in one set of countries, other countries must have a deficit.

Dr. LANDSBERGER: How can they cover it? By government loans and investments? If so they must pay interest on the loans, and dividends on the investments, and ultimately repay the loans and investments. How can they do that without changing the import deficit into an export surplus? Therefore, I say, to insist on persistent export surpluses must lead to trouble.

Hon. Mr. TURGEON: May I ask you one more question? You mentioned Bretton Woods. Am I right in assuming, speaking generally, that the various decisions made at Bretton Woods were based on an assumption, derived from the speeches of spokesmen of various countries, that the United States was ready to enter into a much greater system of importation of foreign goods? Would you say that was one of the reasons why the various conclusions were reached?

Dr. LANDSBERGER: Senator, I do not think that this was the background. My suspicion is that those responsible for devising these means, as we have them today, thought the world would run economically the same way as it did twenty years before. They thought probably there will be a natural adjustment of deficits of imbalances, it was thought if an instrument was sufficient to overcome the post-war troubles temporarily.

Hon. Mr. EULER: It has not worked out that way.

Dr. LANDSBERGER: No, it has not worked out. I do not think it has been anybody's fault. Under present conditions these instruments are insufficient.

Hon. Mr. PRATT: Mr. Chairman, I am not a member of this committee but may I ask Dr. Landsberger a question?

The CHAIRMAN: Certainly.

Hon. Mr. PRATT: We have had a very interesting discussion and I should like to thank the witness for his views. I should like to point out that when we talk about making rules which are going to be generally accepted, they must be tied in with the political policies and the needs of each country. Now, that creates a very difficult problem. I have been a bit puzzled here as to the emphasis being placed on a movement to tie in with the NATO countries. There are two great currencies in the world today, the sterling and the dollar. The sterling is restricted to Commonwealth trade. Sterling itself is creating its own movement, not within the sterling areas so much but in countries of diverse currencies. We have only two Commonwealth countries, England and Canada, reflecting sterling. Sterling largely gets its stability from a flow amongst the nations by trade from sterling areas into Norway, Denmark and other countries in the NATO group. Why, as a practical approach, switch our emphasis from a reconciliation of trade and movement of trade within the Commonwealth countries and the dollar areas to NATO countries with their diverse currencies? All of these countries are interlocked to some extent with the sterling and dollar, particularly the sterling. It is the easiest thing in the world to say that we will start off with a set of rules. You must remember that you have to start with principles that are politically acceptable in these various countries. I should like to get Dr. Landsberger's opinion on this. I cannot see the feasibility, the practicability, of changing our thought from a reconciliation between the sterling and dollar areas to some plan involving the NATO countries when, after all, these NATO countries are already tied in to a great extent with the sterling areas in the matter of trade? There is already a movement amongst the Commonwealth nations to establish a reconciliation of trade between the sterling and dollar areas.

Hon. Mr. EULER: If you confine it to the Commonwealth nations, you leave out the United States, which is vital.

Hon. Mr. PRATT: You misunderstood me. I am thinking of the Commonwealth and the United States. I beg your pardon. I thought I did say the sterling and the dollar areas.

Hon. Mr. HAIG: Why bring the United States in at all?

Hon. Mr. PRATT: It is not conceivable that we can adopt a policy which sidesteps the dollar country. We are right in that ourselves. We are part and parcel of the United States dollar area ourselves. We cannot possibly sidestep that. I should like to get an opinion on this. Would it not be a more feasible approach to follow along the pattern and give such impetus as we can to a reconciliation between dollar and sterling, which automatically will affect these NATO countries vastly.

Hon. Mr. EULER: That would not be in accordance with the reference, would it, Mr. Chairman?

The CHAIRMAN: No. We are tied up for twenty years in a military way, and we talk about politics. What the Dr. is trying to tell us is that NATO is a place to start in an effort to embrace the whole free world. We are tied in with NATO in a military way, so these other clauses are just as important as the military clause. Why not get something stable for twenty years on a basis of economic collaboration. I think that is what Senator Euler refers to.

There is one more point, senator, which you made. You said this is very much a political issue, if I understood you correctly. Now, the Quebec Board

of Trade is of the opinion that this is a purely economic problem—a purely economic sickness, the cure can only be, therefore, an economic cure. I mean, to keep order in international trade relations has nothing to do really, in the first place, with any political issue. It is an economic technical problem.

Hon. Mr. PRATT: But I meant to say it would be political in each country that would be adopting these rules, whatever they may be.

Dr. LANDSBERGER: How they execute these rules may depend on the political strengths of certain factors and the nature of their economy. That is entirely correct. But the rule itself is purely of an economical nature. The principle that foreign trade is a two-way affair is a purely economic problem.

Hon. Mr. EULER: Mr. Chairman, I think we have had a very interesting discussion, and I think the doctor has given us food for thought. I would like to suggest that he be extended a very hearty vote of thanks for coming here.

Some Hon. SENATORS: Hear, hear.

The CHAIRMAN: Certainly, a hearty vote of thanks.

Hon. Mr. CRRERAR: Mr. Chairman, before the meeting adjourns, I have a motion I would like to move:

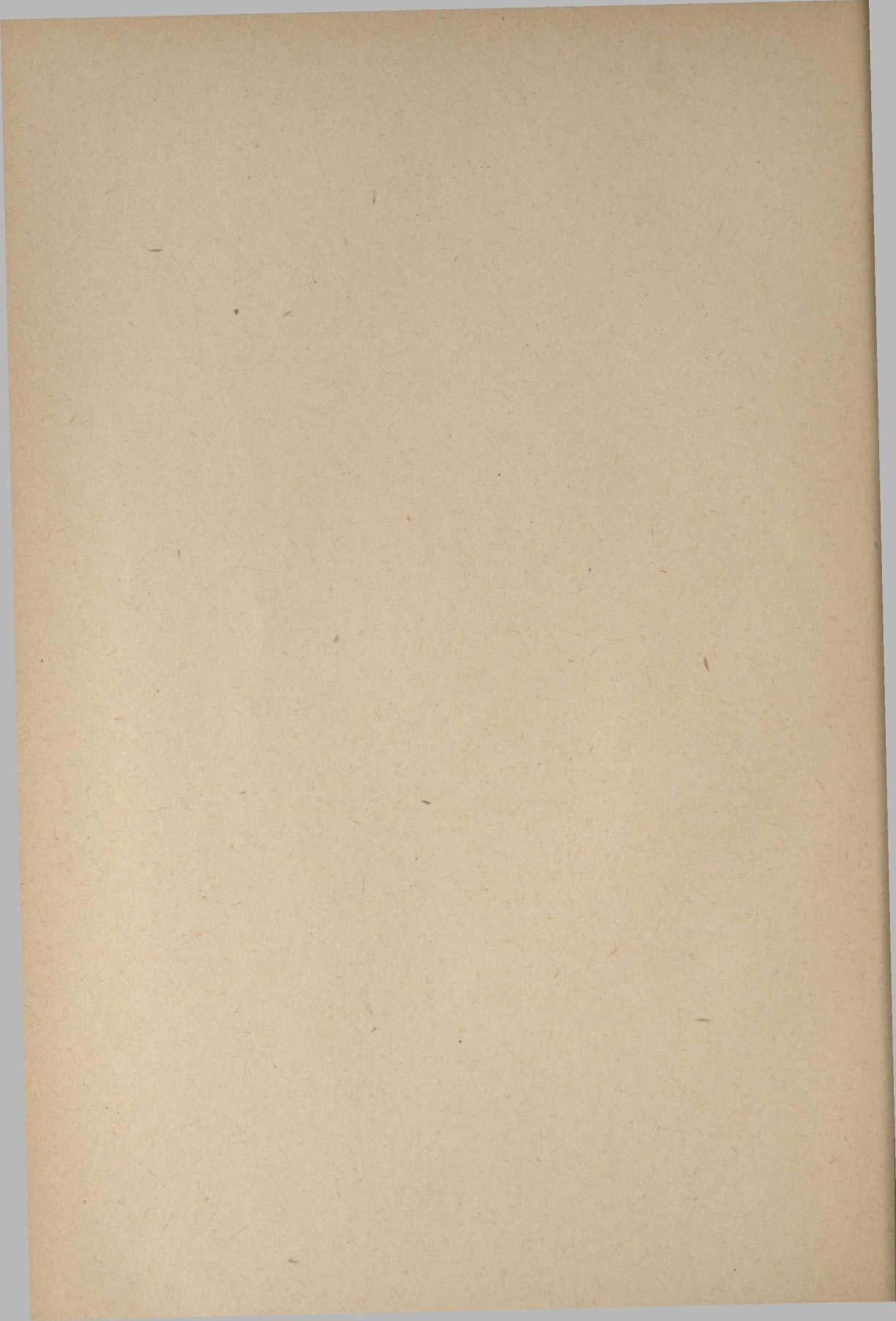
That the committee be authorized to print 800 copies in English and 200 copies in French of its day to day proceedings, and that Rule 100 be suspended in relation to the said printing.

The CHAIRMAN: You have heard the motion, members.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Thank you, members, for the great interest you have taken today; and I thank the doctor personally for his very fine explanation given. Thank you very much.

Whereupon the committee adjourned.



SESSION 1952-53

THE SENATE OF CANADA



Proceedings of the
STANDING COMMITTEE ON

CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be
the most practical steps to further implement Article 2
of the North Atlantic Treaty.

No. 2

WEDNESDAY, APRIL 15, 1953

The Honourable A. N. McLEAN, Chairman

WITNESSES

Mr. H. H. Hannam, President, Canadian Federation of Agriculture.

Dr. E. C. Hope, Economist, Canadian Federation of Agriculture.

CANADIAN TRADE RELATIONS

The Honourable A. N. McLEAN, *Chairman*

The Honourable Senators:

Baird	Duffus	McDonald
Bishop	Euler	McKeen
Blais	Fraser	McLean
Buchanan	Gouin	Nicol
Burchill	*Haig	Paterson
Campbell	Howard	Petten
Crerar	Hushion	Pirie
Daigle	Kinley	*Robertson
Davies	Lambert	Turgeon
Dennis	MacKinnon	Vaillancourt—(30)
Dessureault	MacLennan	

35 Members—(Quorum 7)

*Ex officio member

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Thursday, February 26, 1953:

“That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—“They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them”.

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

- (a) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;
- (b) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby “The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all”.

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry.

L. C. MOYER,
Clerk of the Senate”.

MINUTES OF PROCEEDINGS

WEDNESDAY, April 15, 1953.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 10.30 a.m.

Present: The Honourable Senators McLean, *Chairman*; Bishop, Burchill, Campbell, Crerar, Euler, Gouin, Haig, Hushion, Lambert, MacKinnon, MacLennan and Robertson.—13

Consideration of the order of reference of February 26, 1953, was resumed.

The following were heard:—

Mr. H. H. Hannam, President, Canadian Federation of Agriculture.

Dr. E. C. Hope, Economist, Canadian Federation of Agriculture.

Further consideration of the order of reference was postponed.

At 12.45 p.m. the Committee adjourned until Wednesday, April 22, 1953, at 10.30 a.m.

Attest.

JOHN A. HINDS,
Assistant Chief Clerk of Committees.

MINUTES OF PROCEEDINGS

Wednesday, April 12, 1911

The meeting was held at the usual hour and place, the following members on hand:

Mr. J. H. ... Mr. ... Mr. ...

Minutes of the meeting of the 5th of April 1911 were read and approved.

Mr. ... presented a report on the work done during the past week.

The following resolutions were adopted:

Resolved, that the sum of \$100.00 be appropriated for the purchase of books.

Resolved, that the sum of \$50.00 be appropriated for the purchase of stationery.

Resolved, that the sum of \$25.00 be appropriated for the purchase of ...

Resolved, that the sum of \$10.00 be appropriated for the purchase of ...

Resolved, that the sum of \$5.00 be appropriated for the purchase of ...

Resolved, that the sum of \$2.50 be appropriated for the purchase of ...

Resolved, that the sum of \$1.25 be appropriated for the purchase of ...

Resolved, that the sum of \$0.62 be appropriated for the purchase of ...

Resolved, that the sum of \$0.31 be appropriated for the purchase of ...

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Wednesday, April 15, 1953.

The Standing Committee on Canadian Trade Relations which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 10.30 a.m.

Hon. Mr. McLEAN in the Chair.

The CHAIRMAN: Honourable members, I will call the meeting to order. This is the second meeting, as we all know, of the Canadian Trade Relations Committee since reference was made to us of a resolution introduced in the Senate on February 12 and, after considerable debate, was passed, and referred to us on February 26. I do not think we need to read the resolution again. We are all familiar with it.

We are highly honoured this morning to have with us representatives from the Canadian Federation of Agriculture. There is no other business preceding the hearing of the representatives from the Federation.

Hon. Mr. EULER: I move that they be heard.

Hon. Mr. HAIG: Seconded.

The CHAIRMAN: I now call on Mr. Hannam to come forward.

Mr. H. H. HANNAM, President of the Canadian Federation of Agriculture: Mr. Chairman and honourable senators, I have just one comment to make before I introduce our witness, Dr. Hope. We believe that it is important and urgent that the nations of the western world move in the direction of a common policy on trade and economic affairs. Members of the Senate are to be commended on undertaking this study on Canada's behalf. Even if NATO may not be the best grouping of these nations to carry through such a program they could well be the best group to take the initiative in launching it; and their Article II gives them the opportunity for doing so and, I think, implies some responsibility that they should. In any case they are the leading nations in world trade; they are the advanced countries and naturally they are world leaders. They have assumed responsibility for the survival of freedom for the future. Under this article they can and should act.

Dr. E. C. Hope, Economist for the Canadian Federation of Agriculture, will present our brief and be our witness. Before joining the staff of the Canadian Federation of Agriculture five years ago, Dr. Hope had won a name for himself as one of the leading agricultural economists in Canada. He was considered one of the leading economists, and he has been doing exceptionally good work for us. This particular presentation is a highly technical one from the economist's standpoint, and for that reason he has done the work for us and we are asking him to make the presentation.

The CHAIRMAN: We will now call on Dr. Hope.

Dr. E. C. HOPE: Mr. Chairman and Senators: I think this is the second time that I have been before a committee of the Senate. Last time you were very kind to me, and I anticipate that you will not be too rough on me this time also. Sitting there in the chair looking at the job the chairman had to get together the members of the committee this morning rather reminded me of when

I was running in politics in Saskatchewan some years ago, when we used to go into a politically rather tough section and find it difficult to get an audience, and the organizer would run up and down outside to bring in the people.

Hon. Mr. EULER: Into the highways and byways, eh?

Dr. HOPE: Yes. I will read this brief, and later on it may be that the committee will take the opportunity to ask questions on it.

THE DEVELOPMENT OF ECONOMIC COLLABORATION BETWEEN THE SIGNATORIES OF THE NORTH ATLANTIC TREATY

The North Atlantic Treaty Organization (N.A.T.O.) was established in the spring of 1949 by twelve nations¹ later enlarged to include fourteen, for the primary purpose of providing for a united system of defence for the West against aggression.

The spirit and purposes of the North Atlantic Agreement are indicated in the Preamble to the Pact. The parties state their determination to "safeguard the freedom, common heritage and civilization", of their peoples; to promote, "stability and well-being" in the North Atlantic area. They proclaim their resolve "to unite their efforts for collective defence and for the preservations of peace and security".

Most of the articles in the Pact deal with defence matters but the non-military aspects are included in Article 2. This Article reflects the conviction of the signatories that a true and lasting peace is more than mere absence of war and indicates their desire to contribute toward peaceful and friendly relations, "by strengthening their free institutions, by bringing about a better understanding of the principles upon which these institutions are founded, and by promoting conditions of stability and well-being". Specifically they agreed to try and "eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

In military collaboration, N.A.T.O. has made solid progress towards the establishment of a strong Atlantic community of defence. It has run into some trouble; all the nations have not agreed on a European army, but progress is being made. Unfortunately up to now, the same cannot be said with respect to collaboration to "eliminate conflicts in their international economy policies". A special committee of N.A.T.O. was set up to consider ways and means of implementing Article 2. Nothing really concrete came out of its deliberations other than the suggestion that freer migration between N.A.T.O. members would aid general economic betterment and create a more genuine Atlantic community. Incidentally, they did increase immigration a great deal for a while, but this last year it has been falling. Canada, among other nations has again this year reduced its quota on immigrants.

Possibly one reason for the lack of more positive recommendations by this N.A.T.O. committee was their reminder that all members of the organization already belonged to many world-wide organizations which are grappling with these economic problems on a multi-lateral world wide basis rather than an Atlantic community basis.

This thought has also been expressed by Mr. A. D. P. Heeney, when speaking at the Atlantic Community Conference, at Oxford in September, 1952, he said—"I am going to suggest to you tonight that we shall make our best progress toward the objectives stated in Article 2 if we are willing to

¹ In April, 1949, the plenipotentiaries of the following twelve states signed the North Atlantic Treaty: Belgium, Canada, Denmark, France, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, Great Britain and Northern Ireland, United States of America.

In October, 1951, two other countries, Greece and Turkey were added to the Organization through the signing of the "Greece-Turkey Protocol".

look beyond the North Atlantic Organization for areas and opportunities of non-military collaboration". He went on to point out that rather than look to N.A.T.O. itself for a solution of our economic problems we would be wiser to work through organizations already set up to deal with such matters on a much broader scale than just the Atlantic Community.

To a certain extent we are inclined to agree that the proper approach to a solution of the economic problems of the free world is not to confine our attention solely to how the N.A.T.O. nations alone may seek to eliminate conflicts in international economic policies. Rather the approach should be to examine the problem on a much broader multi-lateral basis including all the free nations of the world.

THE SITUATION AT THE END OF 1952

The disruptions to international trade balances arising out of World War II have been deep and persistent and up until the present time have practically defied all attempts at a solution. Without going into too many details the causes of the unbalance in international payments may be said to stem from two major events:

- (1) The destruction of physical property in Britain and the continent of Europe and the slow process of restoring productive capacity to these areas. At the same time the productive powers of North America expanded during the war and have continued to expand at a rapid rate following the war. This situation has prevented the normal exchange of goods for goods.
- (2) The other important event has been the splitting of the world into two political camps—the communist-dominated world and the free world. The political struggle, particularly in Europe, for the minds of the people has in some cases made it extremely difficult for democratic governments to put into operation economic policies which would restore their competitive position in world markets. In other words for political reasons they have found it very difficult to balance their budgets and control inflation. Consequently their competitive position in world trade has been weakened.

In the post-war world international payments have been kept in a precarious balance by a shaky structure of intergovernmental grants and loans running into billions of dollars annually, but a growing impatience has appeared both in North America and Europe with a continuance of this artificial and temporary method of balancing international payments. The American taxpayer is becoming restless because he thinks he is called upon to pay too heavy a burden to maintain the economy of free Europe. On the other hand the recipient nations rebel at any suggestion of outside interference with their internal affairs which may accompany loans and grants. They are anxious to pay their own way and are beginning to express their views by the slogan, "Trade not aid".

Possibly one of the best analysis of the present situation in Europe is contained in the report of the Organisation for European Economic Co-operation (O.E.E.C.) for the year 1952. There is a mine of information on that volume, which is quite extensive. After indicating that Western Europe, at the end of Marshall Aid has made substantial economic progress they state that the general economic situation is still far from satisfactory.

The report points out that:

- (1) Production in the various countries of Western Europe is either not rising or rising at a relatively modest rate.

- (2) While much progress has been made towards a sound internal financial situation, there are inflationary tendencies in some countries and deflationary tendencies in others that stand in the way of stable development.
- (3) Disequilibria in the balances of payments of several member countries still exists.
- (4) Almost all countries have serious disequilibria in their balances of payments with the dollar area.
- (5) Progress in the liberalisation of intra-European trade has been halted and some important countries have had to reduce the scope of trade liberalisation, thus contributing to a decline in trade that is more general.

The member countries submitted forecasts which show the general expectation that, "on the basis of present world economic policies, a serious dollar disequilibrium will persist, and any balance of payments improvement will result from a decline in imports rather than from an expansion of exports".

It is clear that despite the progress made since the end of the war, a substantial dollar deficit persists. The following table adapted from the March, 1953, issue of the National City Bank Review shows the present extent of the world dollar deficit:

U.S. INTERNATIONAL PAYMENTS

(In Billions of Dollars)

Transactions Supplying Dollars

	1949	1950	1951	1952
Merchandise imports	\$7.1	\$9.3	\$11.7	\$11.4
U.S. Government expenditures abroad . .	.7	.7	1.2	1.6
Other services	2.4	2.6	2.7	2.9
(1) Goods and services total	\$10.2	\$12.6	\$15.6	\$15.9

Other Dollars Supplied

U.S. capital investments	1.2	.5	1.8	1.4
U.S. Government economic aid	5.2	3.7	3.0	2.0
Total	6.4	4.2	4.8	3.4
Total Dollars Supplied	16.6	16.8	20.4	19.3

Transactions Using Dollars

Merchandise exports	12.3	10.7	15.5	15.5
Less-military aid	—	.3	1.1	2.2
Net commercial exports	12.3	10.4	14.4	13.3
Other services	3.7	3.7	4.7	4.8
(2) Goods and services total	16.0	14.1	19.1	18.1
Deficit in International Payments . .	-.6	-2.7	-1.3	-1.2
Increase (†) or decrease:				
Foreign gold and \$ balances	-.2	†2.6	†1.0	†1.0
Errors and omissions	†.8	†.1	†.3	†.2
	-.6	-2.7	-1.3	†1.2

Largely as a result of the boom in raw material prices following the outbreak of the Korean War in 1950 the foreign holdings of gold and U.S. dollars increased sharply in 1950 but dropped off again in 1951 and 1952. In other words, the non-dollar areas improved their position for a short time through the rapid rise of raw material prices, particularly coming from sterling

areas. Then once the inflationary rise was over, prices began to fall and their positions deteriorated again because they were not getting such high prices for their wool, tin, rubber and cocoa.

In 1949 transactions supplying U.S. dollars for foreign nations amounted to \$10.2 billions. The gap was partly made up by U.S. capital investments of \$1.2 billions and U.S. Government Economic Aid (mostly Marshall Aid) of \$5.2 billion.

In 1952, transactions supplying U.S. dollars—that is, credits to Europe—had increased to \$15.9 billions of which \$1.6 was U.S. government expenditures in foreign lands for defence purposes. Transactions using U.S. dollars amounted to \$18.1 billions. The gap was partly made up by \$2 billions of economic aid.

United States international payments with the world were balanced in 1949 and 1952 as follows:

	1952	1949
Economic aid	\$2.0 billions	\$5.2 billions
Military aid	2.2 "	—
U.S. Government expenditures abroad	1.6 "	.7 "
Total	\$5.8	\$5.9

The persistence of the dollar deficit is an obstacle to economic progress in Western Europe. Some countries have small foreign exchange reserves and their inability up to this time to solve the dollar problem forces them to adopt restrictive trade practices. It is significant that what improvement has been made during the last year in their dollar position has been due more to restricting imports from the U.S. and Canada rather than to an expansion of their own exports to North America. It will be noticed from the above table that from 1951 to 1952 U.S. merchandise imports decreased \$300 million but U.S. commercial merchandise exports decreased \$1.1 billions.

The persistence of the dollar problem, now that Marshall Aid is completed shows that the deficit is not likely to disappear automatically under present international trade policies.

An action program is needed which will provide a solution to the dollar problem. It is likely that as long as the present pressing defence emergency persists United States military aid, off-shore purchases for defence purposes and United States and Canadian defence expenditures in Europe and Asia will bridge the gap, but it is expected that the present rate of these expenditures will soon decline and unless the central problem of dollar deficits in international balances is solved the world could very well be plunged into a shrinkage of trade as bad as that experienced from 1929 to 1933.

This problem undoubtedly could be solved by European, and other countries in payment difficulties, simply intensifying their restrictive practices against the imports of goods from the dollar area. By this means a kind of balance would be reached and maintained. In fact if nothing is done, that is likely what will happen, but such a solution would result in stagnation in the dollar areas of the world and a low level of subsistence in the remainder of the free world.

SOME POSSIBLE SOLUTIONS TO THE INTERNATIONAL PAYMENTS PROBLEM

There is no easy solution to the international payments problem. It is a world-wide problem and not just related to the policy of the United States alone, even if it is called the "dollar problem". For instance, it can be shown that the United States has progressively lowered its general tariff structure

since 1937 and today the U.S. tariff rates are lower than they have been for many years. Canada, another dollar area, has also lowered its tariffs over the last few years. This does not mean that we are suggesting that North American tariff rates should not be lowered still more, but we wish to emphasize that attacking the problem from the side of North American tariff rates alone is not a complete solution.

We feel that the attack on the dollar problem must be a co-operative one. It will require the co-operation of both the dollar countries and the non-dollar countries. Although the important position of the United States in the world economy necessarily makes actions by that country a dominant factor in any solution yet a lack of co-operative spirit by the non-dollar countries could well render any action by the United States alone ineffective.

Action By Western Europe and Its Dependencies

Although we in North America have complained about internal inflation since the war the problem has been a greater one in Europe. In some cases even successive devaluations have not been sufficient to compensate for the inflationary rise in price levels so that it has been difficult for them to sell sufficient goods in the dollar area to balance their international payments. Economic authorities within recent months have universally pointed out that monetary and fiscal policies by Western European nations coupled with an apparent refusal or inability to put into operation sound domestic policies have contributed largely to the disequilibrium in international payments.

The 1952 Annual Report of the International Monetary Fund, referring to the frequent recurrence of international payments difficulties states: ⁽¹⁾

Since the end of World War II the pressure of demand for consumption and investment goods and services has, for a wide variety of reasons, been allowed to pass beyond the limits set by the resources available. The efforts to translate into reality the widespread desire for economic security and betterment, or, in some countries, to check the deterioration of standards realized in the past, have been an important factor in this situation. More recently, rearmament programs have made further demands upon the limited supplies of resources . . .

In their efforts to satisfy the competing claims of divergent social and economic objectives, many countries have adopted economic and monetary policies which have meant that they were attempting to live beyond their means . . . Measures which it is feared will be unpopular are either not taken at all or taken only after long delay and then not pushed far enough.

Mr. Ivar Rooth, Managing Director of the Fund, discussed the impact of inflation on balance of payment difficulties in the following words:

The fact is that there is no greater threat to employment and living standards than inflationary policies which lead to payments difficulties. Continuous inflationary pressures and balance of payments deficits are bound to make it increasingly difficult to ensure the maintenance of imported supplies of raw materials and foodstuffs and therefore of full employment and high standards of living.

He points out that internal inflation tends to increase the international payment problem.

The O.E.E.C. Annual Report for 1952 goes very fully into the same matter. In the section called "European Responsibilities" it states:

Europe's over-riding responsibility must be the determination to live within its means and still secure other basic objectives. It must take the most realistic view possible of requirements from the outside world, and secure adjustments in its economy which will enable those requirements to be paid for out of current earnings.

(1) National City Bank Review, October, 1952.

Thus it is particularly countries in deficit with the whole outside world which must avoid any excess of monetary demand over available resources, so as to help secure equilibrium in their overall balance of payments. If the countries of Europe are to derive the fullest advantage from those external conditions which would afford them the opportunity of increasing their dollar earnings, it is essential that they strenuously resist inflationary pressures by appropriate internal economic and financial policies.

Now, those statements were not written by Americans and they were not written by Canadians. That is a committee of the European nations themselves. Their experts meet and go over the situation very carefully from year to year. It is true that Canada and the United States are listening partners, but they did not actually draft that themselves.

The political difficulties which beset most European countries and some of the Middle East and Far Eastern countries are real but often not fully understood by many people in North America. I mean, people in politics understand it, but people on the street, do not. Within recent years some of them, because of economic disruption as a result of the war, have had a very strong undercurrent of communist political strength. Democratic governments have only with difficulty kept themselves in power. For a time it looked as though some might fall to the extreme left. In fact if it were not for timely Marshall Aid the political map of Western Europe might have been different from what it is today.

Under the tremendous pressure of political events it has been almost impossible for some countries to push forward fiscal and monetary policies which would result in Europe living within its means. Lower cost of production through longer hours of work and a lag of wage rates behind rising prices, or controlling internal demand and prices by controlling bank credit, higher taxation and balancing the budget are all politically unpalatable diets to governments which are under terrific pressure from communist inspired agitation.

Another important factor which handicaps European efficiency in production is the multiplicity of relatively small markets. Each country is hampered by intra-European trade restrictions. That Europeans themselves recognize this as a major handicap to economical progress is a hopeful sign. The Schuman Plan for coal and steel is now starting to operate. Under this plan six Western European nations have agreed to the establishment of a common market for coal and steel by the progressive abolition of restrictions on trade in the form of tariffs, quotas and other discriminatory practices. Preliminary conversations have taken place regarding the possibility of having a similar single market for certain agricultural products.

In spite of the political difficulties which beset Western European countries, we feel that their contribution toward solution of the international payments problem must be a willingness to pursue sound policies which will enable their people to live within their means. In spite of the fact, we know it is difficult for them to do so, but there is no other solution, and if they are not willing to live within their means, then they have either to get loans to let them live beyond their means or else cut down imports.

Hon. Mr. BISHOP: Otherwise they go broke.

Dr. HOPE: That is right, otherwise they go broke. Now, when the war was over, when the Bretton Woods Conference was held, I think most people realize now that the people who sat around the table there drew up an agreement which looked all right in theory at the time, but it was not very realistic. They did not realize the political difficulties of making international balances work out, and the Bretton Woods Agreement was full of all kinds of

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.

During the post-war period of reconstruction the United States has lived up to its responsibilities in keeping with its economic strength by the generous use of large outright grants and to a lesser extent loans, for the rehabilitation of Western Europe, the Middle East and Japan. It has cost the American taxpayers between \$5 and \$6 billion a year, but this policy cannot go on indefinitely. It must come to an end. Both the American taxpayer and the recipient nations are apparently agreed that a more realistic and lasting solution must be found to the so-called "dollar problem".

Hon. Mr. EULER: Is it not at an end now?

Dr. HOPE: No; they are still giving military aid, off-shore purchases and economic aid, enough to balance total payments. Their economic aid has dropped to \$2 billion, but they are increasing their military aid. Now we hear that Eisenhower and Dulles are proposing to stretch out this aid to Europe.

Hon. Mr. EULER: But it is only of a military nature.

Dr. HOPE: Both will be reduced; but they are reducing to \$2 billion their economic aid. I believe it is still standing at \$2 billion for this year.

We pointed out that the solution to the problem is a co-operative project. We have indicated how the countries of Europe can do their part. The responsibility of the United States is to create conditions which will make it possible for the rest of the world to earn its requirements of dollars through normal international trade and commerce.

Economic Stability

The United States is the world's largest buyer of such raw materials as tin, wool, rubber and cocoa which are produced in the sterling area. It is also a large buyer of many other raw materials such as copper, lead, zinc, forest products and oil. Over a period of time that country is going to become a greater buyer. Its own resources are going down and are not keeping pace with its economic development. In time it should therefore become a much more important buyer of raw materials. Changes in the rate of buying of these products by the United States has a very significant effect on the balance of payments of the non-dollar areas of the world. It was largely the violent change in the United States buying of these products in 1950, 1951 and 1952 which caused a rapid improvement in the dollar balances in 1950 and then a sharp reversal in 1951 followed by the restrictions on imports by sterling countries in 1952. Canada has felt that too. Therefore the United States would make a significant contribution to stability in international payments if it would pursue a policy of more orderly purchases of raw materials for stock piling. In the longer view also government action to keep recessions within reasonable bounds would have a significant effect on stability in international payments. Any material drop in United States imports as a result of even a moderate depression would have a serious impact on the economies of many countries whose dollar reserves are low. They are so low today that if the United States encountered a depression and started to curtail her imports, it would mean trouble for some countries.

The United States is now a much more important factor in the total world economy and her responsibility in that connection is therefore greater than it was in 1929, and it was more important in 1929 than it was in 1890. The bigger she gets the more her responsibility grows.

Foreign Investment

Most of the foreign investments of the United States have been made in Canada or South and Central America and in the Middle East. That is mostly for the development of oil. Certainly an expansion of United States investment in the non-dollar area would be of material help in solving the dollar problem

—providing private investors would be willing to take the risks. But it is likely that if any large scale investments should be made they would have to be backed by the government against non-commercial risks;

in other words, political risks. A man will invest his money on a straight commercial risk; he figures on that. But it is another matter to ask him to make an investment and take into account political risks in foreign lands, such as was taken in Iran. Yet the people of some countries are asking us to do that very thing. Likewise the government of the receiving country might have to negotiate a special treaty with the United States to allow the complete convertibility of earnings from the investment. In other words, if the people have invested money in countries like South American, how are they going to know when the business is showing a profit, and if it does show a profit, how are they to get their dividends out of that country? The government of today might sign an agreement providing for it, but if a new government comes into power they will tear up that agreement as a scrap of paper.

In view of the unsettled world political situation it is unlikely that private investors will look with favour on foreign investments in some Western European countries or the Middle East. Nor is the American Government likely to make large foreign investments except as they are a part of the point-four program for undeveloped countries. In other words, if it goes down the drain, it is gone; but with a straight economic investment, I doubt if they would allow that to happen.

Need for a New U.S. Tariff Policy

The extent of the present unbalance in international commercial payments is readily seen if we eliminate United States economic and military aid and Government defence expenditures in the non-dollar world. On the basis of commercial payments alone the non-dollar world has a present deficit of between \$5 and \$6 billion which amounts to about 50 per cent of present United States imports of goods or one-third of imports of goods and services. That means, one-third of her credits on imports and services combined. That illustrates how big it is.

Unless the non-dollar countries are able to increase their earnings of U.S. dollars to compensate for the anticipated reduction in United States economic and military aid, the United States will face a serious reduction in her export trade due to restrictions against her exports by the non-dollar world.

It is happening today in the export of her farm products. Her exports in that regard have dropped off materially within the past twelve months, because overseas people haven't the money to buy their farm products.

Hon. Mr. HAIG: That applies to Canada too.

Dr. HOPE: Yes, in some cases.

A curtailments of exports would result in a business recession which would be followed by curtailment of imports with a reaction upon Europe. Thus a vicious spiral of world-wide deflation would set in just as it did in 1929 when the inability of Europe to service its war debts in U.S. dollars was one of the major factors initiating the world-wide depression.

Fortunately an increasingly large number of responsible American citizens are becoming aware of this impending danger. There is no need for us to list in detail the important citizens of the United States, nor the influential organizations or groups which have recently made public statements in this matter, but we would like to refer to what we consider the most significant and important of all these statements.

In 1952, President Truman appointed an authoritative committee to study and report on "a Trade and Tariff Policy in the National Interest". As your committee will no doubt review this report it will not be necessary for us to discuss in detail all its findings.

Some people in the States thought that Eisenhower would not publish the report, because the committee was one which was appointed by Mr. Truman a year or so ago; but President Eisenhower released it to the public recently. We would like to list the important recommendations, which were as follows:

- (1) That a new simplified tariff act be adopted, providing for a general reduction of duties.
- (2) That tariffs be reduced, and quotas on agricultural products be liberalized to allow freer import of goods that are not produced in the United States in sufficient quantities at world prices.
- (3) That tariffs be reduced and in some cases ultimately eliminated on metals and minerals of which imports are a major part of U.S. supplies.
- (4) That the President be authorized to enter into reciprocal trade agreements without limit of time and with power to reduce tariffs, within specific limits, in return for reduction in tariffs or restrictions by other countries.

- (5) That a customs simplification procedure bill be passed by Congress.

It has been brought up before, but it never seems to get very far.

- (6) That special cargo preference for domestic carriers for American loan and aid shipments be withdrawn.

They have a special provision whereby aid in kind to Europe must be transported in American ships. Europe gets a lot of its dollar credits from the shipping trade and objects to this. But preference is supported on the ground that the needs of the last war showed that the lack of American shipping was so great that the building up of their shipping in case of war amounts to a national necessity.

- (7) That the Congress take the necessary steps to enable the United States to join in establishing an international organization to promote the objectives of the General Agreement on Tariffs and Trade (G.A.T.T.).

In other words, the United States had the opportunity of ratifying the Havana charter, but did not. It is suggested that they shall meet again and bring up the matter of this international agreement, and joint it.

We cannot do more than say that we support the basic program for the liberalization of American international trade policy as outlined in the above recommendations. If the American government should implement these recommendations then the future for balance in international transactions will be very bright. If they do not, the future is indeed bleak.

Price Support Programs for Agricultural Products

The above-mentioned Committee admitted that "imports of commodities for which there are domestic price assistance programs pose a major problem". The United States protects its agriculture by a parity price support program. The support mechanism is a complicated framework of purchase, marketing agreements and loans backed by quantitative import restrictions, tariffs and

import fees. The committee did not make any significant recommendations with respect to changes in trade policy in agricultural products. What changes were suggested would not likely be accepted by American agriculture.

In other words, they did not comment on the basic thing, which was their high price support program. It was not dealt with at all in that report. They said, "We have to have price supports to maintain our system." They did not criticize the 90 per cent of parity nor even the formula they use. What they suggested was that they should revoke section 104 of the Defence Act, under which they are allowed to have quotas and restrictions on dairy products, and other products as well. Under that act some products have been completely banned. For the same purpose, if they wished they could use section 22 of the Agricultural Adjustment Act. Today the administration is trying to persuade Congress to abolish section 104 of the Defence Act, so that they will not have power under that act to restrict imports of food products. On the other hand they are asking the Tariff Board to give them complete study on every single agricultural product from overseas which is being restricted today. Section 22 of the Agricultural Adjustment Act—the old triple "A", is used to regulate imports and to support their price control program. Under that act they can restrict imports to the extent of 50 per cent of a previous period only, whereas under section 104 of the Defence Act they could ban them completely. I believe the present administration is trying to wean, if possible, the American farmers away from some of their extremely restrictive practices; but again, politically, it is an extremely difficult thing, because during the election, as you know, Eisenhower went out west and promised that the government would not do anything less than the Democrats would; that is, support the price of agricultural products for the next two years at 90 per cent of parity. In the case of some products the support may vary from 75 to 90 per cent; for instance butter. But, that promise having been made during the election, it is a difficult and slow process to gradually recede from some of the pledges they made at that time.

World production, consumption and trade in agricultural products is probably one of the most dominant economic factors in the world economy. Because of the world-wide inelastic nature of agricultural production, and because of variability of production due to weather, prices for the raw materials of the farm are highly unstable.

These things cannot be changed overnight. We know, for instance, that in Canada the farmer cannot change his plans very readily; he starts with one product and goes on for quite a while, regardless of price. The same thing is true of the world market. Even if there is depression, certain farm products will continue to be produced, with the result that production is inelastic, and it has a very serious price effect.

Since the 1930's practically all countries of the world have by unilateral action established domestic programs in an endeavour to protect their agricultural producers against the extremes of the completely free market. The programs vary widely from country to country.

It is all very well saying that this or that thing should not be done. A person can make a very sound argument on the basis of economics that price should govern all these things. But politically, in the world as it is today, it cannot be done. That is the end of it.

Hon. Mr. HAIG: Hear, hear.

Dr. HOPE: The peoples apparently have refused any longer to allow a completely free market to regulate production. That does not mean to say that all of them want complete planning.

Hon. Mr. CRERAR: If we proceed on that course, Dr. Hope, what is the end of the journey?

Dr. HOPE: I would say there are two ways. If we proceed on the course of a completely free market determining all these things, I think we would have communism in Europe very soon, and probably in the rest of the world. It is a hard thing to say, but it is confirmed by the many turnovers of governments. The people are partly ignorant, and partly influenced by a not unnatural feeling that there is something coming to them, too, because they know that other groups have got protection. Industry and labour have had protection, and the farmers feel that they should have it, and if they do not get it they are going to turn a government out.

Hon. Mr. CRERAR: What interests me in your argument is that, if this is necessary to promote stability, what is to be the end of the road?

Dr. HOPE: If you want to go the "whole hog" and try to get complete stability, or, as is advocated in some countries, share the risks to the extent that you eliminate practically all risks, you will finally come to a completely planned economy and complete socialism; and you can drift into communism.

Hon. Mr. CRERAR: And steadily diminishing freedom and liberty in the world?

Dr. HOPE: Yes. But there is one thing which is astonishing in this connection. I often used to think that way, until I read the report of an editor from Canada who went to Sweden about three years ago and interviewed the Prime Minister. As you know, Sweden has what is called a Social Democratic Government, and has had it for some years. But Sweden is often said to have a "middle-of-the-road" government. It has been in power for some years, and in their political campaigns its supporters used to employ, to get into power, arguments on the pattern of an extreme planned economy; but when they got into power they did not do all these things. When the editor from Canada asked their Prime Minister, "You have now got complete control; if you want state ownership of everything you can get it by passing the necessary laws; yet, although you have been in power a long time, you have gone only about one-quarter of the way in that direction; why do you not go ahead?" The Prime Minister's answer was, "We have gone about as far as we feel the people want us to go. We know that if we go further we can lose liberty and freedom." That was the admission of a man who basically was a strong planner and Socialist, but who had realized through experience, and whose people had come to realize after having had a good healthy instalment of a planned economy, that beyond a certain point it is dangerous to go. To me that is a rather hopeful sign, because I fear that to continue in the way that some states are going means that they will end where Russia is. But most people who are sufficiently intelligent, and who love freedom, are ready to stop when the government has gone so far, and will accept a certain amount of instability and of insecurity as the price of freedom. One thing offsets another.

Hon. Mr. CRERAR: But ten years later they may be willing to go several steps further.

Dr. HOPE: Well, of course they have their own choice. They can do so if they wish to.

Hon. Mr. BURCHILL: Could not that reasoning be applied also to Great Britain?

Dr. HOPE: Yes, but I think the people realized that the Labour Government had imposed enough controls. I am not trying to predict that the Labour Government will not come back to power; probably there will be another little swing in that direction.

Hon. Mr. HAIG: You have a good illustration in Canada. There is no need to go to Britain.

Dr. HOPE: But basically, if people value their freedom, there are some freedoms they won't give up.

Hon. Mr. HAIG: Why do you not mention Alberta? In 1934 you were in Saskatchewan and I was in Manitoba. I heard that in Alberta they promised \$25 a month to everybody. Did they carry that out?

Dr. HOPE: No.

An Hon. SENATOR: They have found oil.

Hon. Mr. MACKINNON: They have done better!

Hon. Mr. CRERAR: Do you think that the general sense of the value of freedom is as strong today as it was, say thirty years ago?

Dr. HOPE: Probably it is not quite so strong. It is hard to say. I was not living here thirty years ago.

Hon. Mr. CRERAR: I mean, generally in the United States, in Canada and in Great Britain?

Dr. HOPE: Today the amount of literature discussing freedom and liberty is terrific. We are deluged with articles, advertisements, and speeches on the subject. Forty years ago, as I remember, it was hardly discussed. I think that today people are more conscious of the danger. That is why I have the impression that they will go only so far in getting what they want and in surrendering some of their basic freedoms. Maybe I am wrong, but I have faith in the individual. I believe there are certain basic freedoms he will not sacrifice, although he is willing to go a certain way.

Hon. Mr. BEAUBIEN: But he might lose them gradually, without knowing what the results would be.

Dr. HOPE: Yes, he might. We have to take that chance, of course.

Hon. Mr. MACKINNON: Have we finished with the brief?

Dr. HOPE: For some years the International Federation of Agricultural Producers of which the Canadian Federation of Agriculture is an active member, has advocated the establishment of an international program designed to encourage expanding production, distribution and utilization of food in the interest alike of consumers and producers. Plans for such a program have envisioned an effective international agency, equipped and financed to handle the disposal of agricultural surpluses, to ensure that they are directed to areas of greatest need and in such a way that they would not be allowed to undermine the world price structure.

Two plans for a complete international program have been considered by the Food and Agricultural Organization of the United Nations. The first was the proposal for a world food board put forward by Lord Boyd Orr and the second was the proposal for an international commodity clearing house recommended by an FAO committee of commodity experts. In both cases governments in FAO backed away from these proposals. However, the FAO organization is at present attempting to work out plans for an emergency famine reserve, which would meet part of the requirements of such a program. Significant too is the fact that a group of congressmen in Washington are at the present time attempting to revive and promote the idea of setting up an international food reserve.

A worthwhile international food program would be valuable from a number of angles. It would:

- (a) Supplement and encourage trade in food stuffs.
- (b) Help to bring about more stability in international payments.
- (c) Encourage expanding agricultural production in exporting countries by removing the risk of unsaleable surpluses piling up undermining prices and disrupting production.
- (d) Provide stocks which could be used for an international emergency famine reserve, and
- (e) Help to allay hunger amongst under-nourished people which is one of the practical means of meeting the challenge of Communism.

The unstabilizing effects of rapid changes in prices of farm products entering into international trade cannot help but cause sharp changes in the balance of payments between countries. Already we know that through its domestic price support program the United States Government is accumulating large supplies of wheat and certain dairy products, as well as a large quantity of corn. Should the United States Government decide to dump these products on the world market—and that government today holds \$1,600 million worth of farm products—it would have grave repercussions on the entire price structure for farm products. Moreover on the basis of the present United States parity program even a moderate drop in domestic demand would result in a very rapid accumulation of a wide variety of agricultural products in the hands of the government. The same can be said with respect to a fall in domestic demand in Canada if the Government should step in to support farm income in such an emergency. In the competitive race to dispose of these surplus products off-shore at fire sale prices, the whole balance of payments structure would be disrupted because country after country would rapidly move to impose restrictions on imports to protect their own farm economy against such subsidized dumping.

It is true that G.A.T.T. discourages such practices, but then G.A.T.T. has never been officially ratified by the United States. Even if it had been ratified the system would likely break down because G.A.T.T. alone leaves a vacuum. It discourages such practices in an international emergency, but at the present time no international agency is set up to cope with such an emergency.

Therefore we would suggest that as a means of removing future conflicts in policies with respect to international trade in farm products that the nations of the world should again actively explore the possibilities of establishing some international agency which on a world-wide multi-lateral basis would shoulder the task of the distribution of periodic agricultural surpluses in such a manner as to cause the minimum of disruption to world trade in these products. Without such an agency we feel that farm price and income support programs in various countries can only lead to future restrictions in international trade in farm products.

Canada's Role

Although on a smaller scale than the United States, Canada has an important part to play in restoring the dollar balance of the free world. Generally speaking, we feel that Canada has pursued an enlightened policy with respect to international trade. Our tariff structure is not unduly high. Our customs procedure is efficient and effective. Appeals to the Tariff Board are relatively free from long delays and red tape. From our experience in dealing with the Tariff Board, the Department of Finance and National Revenue

—and we have had a good deal of experience with those three departments—we would say Canada's administrative procedure with

respect to tariffs and trade is carried out in an expeditious, fair and efficient manner. I have spoken to the agents in Canada, some of the major importers and I have asked them whether they would criticize our tariff procedure. They have told me that it was not bad at all, that we had a very good system with respect to administration.

Canada is one of the signatories to the Geneva Trade Agreements and as such has taken an active part in attempting to bring about a greater freedom of trade through a lowering of tariffs and minimizing other restrictions to trade.

Although we have stated that we do not consider that Canada has a high customs tariff structure, yet we feel that there are quite a number of customs duties which could be lowered without doing serious injury to the industry concerned. We might mention a few of them.

Aluminum—Canada is one of the leading countries in the world in the manufacture of aluminum and probably the lowest cost producer.

—for instance, Canada has the lowest cost hydro electric power production in the world today, power is a very important cost in aluminum production. The *London Economist* has published a special issue giving the details on it. Under British Preference semi-fabricated aluminum is free but the M.F.N. duties range from 2 cents per pound to 30 per cent ad valorem on some types. Under British Preference manufactures of aluminum, such as kitchen ware bear a duty of 15 to 20 per cent and under M.F.N. tariff the rates run 22½ per cent to 27½ per cent. And we have the cheapest raw products in the world today. We export far more aluminum products than we import. Surely here is an industry which could very well stand some reduction in its protection.

Copper—Canada is a low cost copper producer with a heavy export trade in practically all copper products, such as bars, tubing and wires. Some categories are free under British Preference, some bear duties of 5 to 20 per cent. Under M.F.N. the duties range from 10 to 20 per cent.

Lumber—Canada is one of the world's largest producers of this basic material. It is one of our most important export products. There are no duties on lumber entering Canada—unless it is dressed on both sides—then the duty is 10 per cent. If it is dressed on the one side it is duty free.

Canada is a major producer of plywoods and wood veneers. We pioneered in that development. Last year we exported \$16 million worth of this product—ten times as much as we imported, yet Canadian duties range from 15 to 25 per cent.

Rubber Tires and Tubes—The raw rubber enters Canada duty free but tires and tubes for autos, buses and bicycles bear a duty of 22½ per cent British Preference and 25 per cent M.F.N. Last year we exported these products to the extent of \$12 million, considerably more than we imported. Our exports of tires and tubes were a little more than \$5 million to the U.S. and imports a little less than \$7 million.

It can be seen that we have almost balanced our trade with that country, and they have duties against us in the same way as we have against them.

Textiles—Raw wool and cotton enter Canada duty free but practically every manufactured article from these materials under the British Preference are dutiable at 5 to 20 per cent. Under M.F.N. the rates range from 10 per cent to 27½ per cent. In some cases the duties are 27½ per cent plus 3 cents per pound.

We have cited just a few examples to indicate where we believe some tariff reductions could be made without too much hardship. It is to be hoped that at the next meeting of the participating nations of G.A.T.T. that Canada will take the lead by offering a number of tariff concessions in return for similar treatment from other countries. It is our belief that if a close study were made of the entire tariff structure many places would be found where in the national interest duties could be lowered to increase competition in the Canadian market from foreign or British goods.

It is of interest to remember that for some years now all farm machinery (with the notable exception of farm wagons, which bears 15 per cent duty) has entered Canada duty free from all countries. The Canadian farm machinery industry has flourished and now exports to many countries. Considerable farm machinery is also imported into Canada. We are convinced that other domestic industries could also stand more world competition without serious injury.

Hon. Mr. CAMPBELL: Could that not be continued by means of a right to export to other countries?

Dr. HOPE: I fully agree with that. But when we come to GATT, we take it commodity by commodity: We will lower the tariff here if the other country will give us a break there. We cannot give away our souls; we have to make a deal. I think we could deal to advantage, as between Canada and the United States, and with other countries. I think GATT has made some progress with respect to trade restrictions; but we are seeking to have the process continued in order to get lower tariffs. Of course I do not say that we have yet a customs union with the United States, although I notice that on nearly all farm products, the United States tariff is about the same as our own. Perhaps the tariffs could be lowered both ways, and be of advantage to both countries.

Hon. Mr. EULER: Do you say as a matter of general fact the United States duties against our products are the same as we place against theirs?

Dr. HOPE: On farm products only, they are almost identical; that covers hogs, cattle and so on.

Hon. Mr. EULER: But that does not apply to many other commodities.

Dr. HOPE: No; on the others they are on an average higher.

Hon. Mr. MACLEAN: The United States duties are higher?

Dr. HOPE: Their duties are higher than ours on industrial products.

Hon. Mr. CAMPBELL: But farm machinery is free?

Dr. HOPE: It is free all over the world. We are free with Britain too: She has the opportunity of shipping farm machinery in here. If she can bring in a good tractor in competition with Canadian and American manufacturers, she may do so. Her only handicap is by way of setting up proper servicing and repair outlets. I myself had an experience with an English tractor on my farm. It has a special oversize tire, and I was not able to get a replacement short of sending to England for it.

Hon. Mr. EULER: Is it not true that while the tariffs between Canada and the United States with respect to farm products are about equal, that the United States maintains certain restrictions?

Dr. HOPE: On some products, yes.

Hon. Mr. EULER: For example, there are all sorts of restrictions exercised at the border.

Dr. HOPE: They have health regulations, and so forth.

Hon. Mr. EULER: They are not necessarily tariff restrictions.

Dr. HOPE: They have valuation procedures and so on which are difficult to go into.

Canadians are very prone to criticise the tariff policy of the United States, but we are in bad taste if we are not willing to make some concession ourselves in order to help the world move in the direction of freer trade on a multi-lateral basis.

The N.A.T.O. nations can best eliminate conflicts in their own international economic policies if they will take the lead in policies which will bring about a balance in international payments without recourse to governmental loans and grants from the dollar area. A balance can be achieved on a basis of restricted international trade. The non-dollar area could continue reducing its present policy of imports from the dollar area by increasing tariffs, restricting exchange and clamping on quotas on imports, but this would be a policy fraught with grave danger to the entire economic system of the free world. Balance must be achieved on the basis of an expanding rather than a shrinking international trade.

The obligation of the non-dollar area is to control internal demand and price levels, and increase their efficiency of production so that their export products will be more competitive in dollar areas.

The obligation of the dollar area—and particularly the United States—is to make it possible for the non-dollar area to earn enough dollars to pay their own way. Specifically the dollar area needs to lower its tariff structure still more and to remove as much as possible all other impediments to importers. They can also assist by continuing and expanding their technical and financial assistance to under-developed nations. Investments in foreign lands would help some, but it is unlikely that this would be an important factor in view of the international political situation.

Once a balance is obtained the next objective should be to take steps to reduce year to year instability in international payments. Should it be necessary to have further governmental stock piling by the free nations more co-operation and planning between governments would help to prevent violent changes in demand for raw materials.

As an aid in long term stability of international payments we believe an international agency to handle agricultural surplus products would be of considerable help.

That concludes my brief.

The CHAIRMAN: Do honourable senators have any questions to be asked of Dr. Hope?

Hon. Mr. HAIG: Dr. Hope, is it possible to reconstruct the NATO world without bringing the countries within that organization up to a common standard.

Dr. HOPE: No, not exactly. The difference of efficiency in production is a factor. A nation that is more efficient in its production processes can have a higher standard of living than a nation which is less efficient.

Hon. Mr. HAIG: But if I in Canada am efficient and can produce cheaper than in the United States, I can sell my product cheaper on the world market.

Dr. HOPE: Yes.

Hon. Mr. HAIG: If I work forty-eight hours a week, while you in England work only forty hours, you cannot hope to compete with me.

Dr. HOPE: That is another factor. But it is true that with the basic difference in efficiency of production, you can still have a balance of trade. That is true even though a country like Japan may have a very low standard of living, while ours is high. Its differences in efficiency could compensate for the difference in price levels.

For instance, Bretton Woods decided to fix exchange rates, and that immediately caused trouble. It may seem strange to hear me criticize a body of experts, but I recall very well when the Bretton Woods Agreement it was

decided to fix exchange rates and to give each nation six months in which to establish its exchange rates, and from then on it would be held at a rigid rate. They worshipped the rigid rate of exchange to the extent that nations would be permitted only a narrow margin of variation. This automatically destroyed the effect of efficiency in production, and brought about inflation. Today Canada has a free dollar, and I think that it is to our advantage.

Hon. Mr. EULER: You seem to want to work through NATO. Do you not think it would be to the advantage of all if Germany were admitted to membership in NATO?

Dr. HOPE: Germany is in NATO now.

Hon. Mr. EULER: Not in NATO.

Dr. HOPE: Germany is going to be brought into the European community plan.

Hon. Mr. EULER: But that is a different thing.

Hon. Mr. LAMBERT: For defence purposes.

Dr. HOPE: For defence purposes. And she is applying to get into GATT. Certainly it would be an advantage to have Germany a member of NATO. Why leave her out?

Hon. Mr. EULER: That is what I was thinking.

Hon. Mr. HAIG: Coming back to my question: How can a country like Great Britain, which for the past five or six years has not been producing as much per man as the United States has, trade with that country?

Dr. HOPE: They can trade by having their exchange rates adjusted, and by producing a few products in which they excel. You might ask how it was we could trade with Japan in the prewar years, when she had such a low living standard. The fact is that in some products they could beat us.

Hon. Mr. HAIG: We had a heavy tariff against Japan.

Dr. HOPE: I know that, but in some products they could successfully compete with us.

Hon. Mr. HAIG: And still pay our tariff.

Dr. HOPE: Yes, even over our tariff.

Hon. Mr. EULER: They are beginning to do that now, are they not?

Dr. HOPE: Yes, Japan is doing that in some products.

Hon. Mr. HAIG: And Germany will be doing it.

Dr. HOPE: Germany and Japan are going to be the two tough spots which may force some change in American policy. They have got to export and the United States will have to import.

Hon. Mr. HAIG: And they are a progressive hard-working people, both of them.

Dr. HOPE: Yes.

Hon. Mr. HAIG: They will dominate the world trade unless the rest of us are willing to work and produce the way they do.

Dr. HOPE: I have this theory, with which, perhaps, nobody would agree. I hate to say it, but I believe I expressed it at a meeting here before.

Hon. Mr. HAIG: I want to suggest something to the chairman. The witness is here representing the Canadian Federation of Agriculture. I want him to feel free in answering us. He is not binding the Federation of Agriculture.

Hon. Mr. CRERAR: I don't think anybody would undertake to bind the Federation of Agriculture!

Hon. Mr. HAIG: Mr. Hannam might, or he might try. But I was referring of course to the Canadian Federation of Agriculture.

Dr. HOPE: Being free from commitments, I would say that I have had the feeling for some time, and what I have been studying lately confirms it, that a large block of the world is shifting to socialism, or in that direction. In other words, a large block is shifting to a planned economy.

Hon. Mr. EULER: There is no doubt about that.

Dr. HOPE: And the nations which are shifting to a planned economy are going the road to the welfare state; and the combination of welfare state and planned economy, if brought about before they get their efficiency up high, tends to make them high-cost countries. That is what has resulted in a good part of Europe, and therefore, even for a while, as the rate of change in productivity diverges it makes trade more difficult, especially if you have rigid exchange rates. Then they attempt to balance by restrictions. If you have a rapid change in efficiency between two nations, that process destroys the ability to trade; but if you have a stable condition between the two, the opportunities of trading would not be so restricted.

Hon. Mr. BURCHILL: To come back to your point about the relation between the flexibility of the exchange rate and the inefficiency of production: you claim that you can protect the inefficiency of production by making your exchange rate flexible.

Dr. HOPE: Yes, if you have a flexible exchange rate it finds its natural level.

Hon. Mr. BURCHILL: In other words, if production is inefficient the value of the currency of that country would decrease?

Dr. HOPE: Trade would have to flow somehow or other, and if it is to flow at all the exchange rate and the price would compensate each other over a period of time, and their money would fall in value.

Hon. Mr. BURCHILL: But the fall in value would compensate for their inefficiency?

Dr. HOPE: Yes, it would have to. And the fact we have decided to worship fixed exchange rates means that we take one of the automatic adjustments away, and if you try to take its place by either loans, gifts, or restricting imports, it is not economic any longer. That was a new philosophy, born in the war.

Hon. Mr. HAIG: But you do not believe in it?

Dr. HOPE: I do not believe it can be done.

Hon. Mr. HAIG: That is where I agree with you.

Dr. HOPE: It could be done if European nations are willing to try to raise their efficiency, and we lower our tariffs a bit. But if we cannot get them to raise their efficiency, and we will not lower our tariffs, what will happen is that they will continue to block trade, or there will be another huge revaluation. Britain is trying to avoid that possibility, because if the pound goes down again it will wreck all the confidence of people who have money balances in Britain.

Hon. Mr. CRERAR: Do you think it is possible to get the maximum amount of efficiency in a completely welfare state?

Dr. HOPE: No, I do not think you can.

Hon. Mr. CRERAR: I have come to that conclusion also. For instance Britain, before the war, exported 40,000,000 tons of coal, mainly to European countries, some to the Argentine, some to other countries in South America. That was a tremendous factor in their balance of payments. But the progress of the welfare state in Britain and the shorter working hours for miners, and higher pay, and that sort of thing, has resulted in Britain today being able to do little more than provide enough coal for her own requirements; and she has lost a valuable export. I think your paper—if I may say so—is a very admirable paper.

Some Hon. SENATORS: Hear, hear.

Hon. Mr. CRERAR: There are some phases of it on which I should like to ask some questions. With your general thesis of the effect of barriers to trade I am in agreement. With your suggestions about certain industries in Canada that could reduce their tariffs I am completely in agreement also. I recall that thirty years ago, when, along with a few others, I was advocating the elimination of duties on agricultural implements, I was told that I would wreck the agricultural implement industry in Canada. Yet it has progressed steadily under complete freedom, and is today one of the prize agricultural implement industries of the world. So that it does not necessarily follow that these restricted policies are essential to sound development. I am against restrictions of all kinds. To take an ordinary subject—and here I am treading on very dangerous ground—consider the trade in margarine, for instance.

Hon. Mr. BEAUBIEN: Why bring that up?

Hon. Mr. CRERAR: Well, for illustration. In the matter of margarine our Canadian farmers are rather inclined to certain restrictive policies. Is that compatible with the general principle of the abolition of restrictive policies? The same consideration is true as regards the United States, for instance in respect to the amendment that was put through to their Defence Act a year ago, affecting dairy products. It all boils down to this; that while you, an economist, Dr. Hope, and others with you can set out for us what I think is a very clear statement, the difficulty comes—and you put your finger on it—when you deal with the political difficulties which are associated with this thing.

Dr. HOPE: That is true.

Hon. Mr. CRERAR: And those—to me—do not appear to be diminishing.

Dr. HOPE: You see, in the field of political reform, when the western world moved into the position of giving everybody the ballot, they kindled a fire whose consequences were not realized by many people. In every country it is the aim of a political party to get into power, and it has become the practice for this purpose to prey on the ignorance of the prejudices of people. Take, for instance, the theory of the welfare state. I am not opposed to welfare, but I feel that we should not move into certain welfare fields in a big way until our production efficiency is pretty high. When we are getting fairly wealthy we can afford to do these things, but if we are a relatively poor nation and, through the political pressure of our people, we try to give them all these welfare items, we are in for trouble.

Hon. Mr. EULER: You are not indicating that Canada is poor?

Dr. HOPE: No. The nation that goes far in that direction is going to make itself a high-cost area, because it has not the surplus to do these things. But wealthy countries like Canada and the United States can go a long way in that direction without making themselves in a serious degree high-cost countries. I think that today some countries in Europe, because of political pressure and Communist influence, have been forced to go too far in these things before they have created adequate wealth for the purpose, and that this has made them high-cost countries. We cannot offer any solution excepting to trust that they will not go too far.

Hon. Mr. CRERAR: Does not this mean that they think more of welfare than they do of freedom?

Dr. HOPE: Well, I do not think so, Senator. I think that a lot of them do not realize that. In any case it does not necessarily mean a loss of freedom. Children's allowances cannot mean loss of freedom.

Hon. Mr. CRERAR: You say that they have to carry out policies of this kind in Europe in order to avoid strengthening Communist influence. I think most people would say "Well, we want the welfare, and whether or not we lose our freedom is a matter of secondary importance to us."

Hon. Mr. HAIG: I do not think they go that far.

Dr. HOPE: I doubt very much if they do that much logical thinking about it.

Hon. Mr. HAIG: I think what you said originally is correct. It is the political opposition that proposes something which forces the government, whatever it happens to be, to make concessions which maybe it would not make if it were not for the pressure of the other side.

Dr. HOPE: We have a classical example in France. France has had more inflation in the post-war world than probably any country in Europe. Its situation has been the most unsettled. For a while the Communist vote amounted to about 30 per cent; and any suggestion to increase the income tax or corporation taxes or do anything which might tend a little to cramp the style of this or that interest was not done. So the people rise in rebellion, throw out the government, and cabinet changes occur almost every week. So the government tends not to balance the budget, and to be soft and easy, to keep in power. At present the price level is almost astronomical. There are the de Gaullist and the Communist parties always trying to get in and playing on the prejudices of the people, promising them heaven and earth, and they listen to this kind of thing. There is the trouble.

Hon. Mr. HAIG: We are trying to listen to what Dr. Hope is saying, but there are two people over here who are engaged in conversation. I cannot hear, and I object to the conversation.

Dr. HOPE: Mind you, I may sound pretty pessimistic, but I would not like to leave that impression. I think there are a lot of thinking people in the world—in Great Britain, Canada, United States, all our countries—that are perhaps realizing more clearly today the dangers of what we have been talking about than they did, say, ten years ago. I feel very confident that there is now a little more knowledge as to how far we can go in some of these measures, and possibly people are getting a little more sensible and are not swayed too much by what oppositions say of the governments of the day. And those of us who have a little more education than the rest of the fellows have should try to point some of these things out. It helps a little, anyway. I think the Americans are beginning to see the light of day.

Hon. Mr. CRERAR: That means that you have a great deal of faith in the common sense of the people.

Dr. HOPE: Yes.

Hon. Mr. CRERAR: I have, too.

Dr. HOPE: And I think with wider knowledge, more discretion, more talk, more writing, we will get out of this without too serious results.

Hon. Mr. EULER: A little more publicity of the common-sense ideas that are expressed in the Senate of Canada might be good!

Dr. HOPE: This report which I quoted from, the O.E.C. Report for 1952, does not mince matters. The representatives of the various countries tell them bluntly what to expect. That report has had quite widespread reading in Europe. So I think possibly we have a chance of moving in the right direction, and of facing successfully these impending crises.

Hon. Mr. CRERAR: A little more courageous leadership in Europe might help.

Hon. Mr. EULER: Anywhere.

Dr. HOPE: Yes. I suppose if a man is very influential, and can swing people like Roosevelt did one time.

Hon. Mr. LAMBERT: Bearing on the point Dr. Hope made about the more optimistic aspects of the situation: he made the point earlier—and I think he was correct in what he said—that the trend of political development in Europe has been a social democratic development, away from the older individualistic and, perhaps, more democratic—if you like to use that term—organization of those countries. With that trend to establish social democracy, how are you going to solve the problem of getting action from the so-called governments of those countries? The people may have these aspirations you are speaking about, and more knowledge, but there is a great gap between the rank and file of the people in whatever they may think and feel, and their governments. That, I should think, is true on this side, where we have more professedly democratic institutions than Europe has today. The gap between individual thinking on this subject on the part of the rank and file and the governments that are supposed to respond to them—is not that the problem?

Dr. HOPE: In other words, get the people informed, and then the people will put pressure on the government?

Hon. Mr. LAMBERT: That is the point.

Dr. HOPE: That is correct, yes.

Hon. Mr. LAMBERT: What I am coming to is the organization of the people themselves in expressing these ideas that you have given.

Organizations like your own, the Federation of Agriculture, the Canadian Manufacturers Association and labour unions are relying today largely on the government. But is there not a job to be done in connection with this enlightening process you are speaking of among these groups of people? There used to be a free trade organization in this country, and there certainly was one in the Old Country many years ago. But what is to prevent the organized movements in Canada from promoting something of common interest to all?

Hon. Mr. EULER: The trouble is they don't agree among themselves.

Hon. Mr. LAMBERT: Then there would not be any difficulty about the government taking action.

Dr. HOPE: I think a wise government will always do what the people want done; if it is not wise, then out it goes. The government can give cautious leadership, always counting noses. I believe you are correct in that if the people are informed and well enough organized, their views will be put forward to the government. You referred to the free trade league we had at one time. Of course, all our organizations are organized for a special interest.

Hon. Mr. LAMBERT: Put it another way: If it were possible to have a referendum among the peoples of these countries on the question of peace or war, I think it is fair to assume that the vast majority would be in favour of more equitable relations among the people of the world. But how are you going to translate those aspirations into action through governments?

Anyone who supported the League of Nations, and who today promotes the cause of the United Nations, is serving the common man on the street. There is no doubt about the aspirations of the people as a whole: They want peace, but they can't get it. Why can't they get it? Simply because there is that gap that has not been closed yet. That is, the ability of the people to elect representatives who will solve their problems for them. I think there is a need for the people resting on their own resources and organizations, and not on the government. The organized groups should co-operate, even though seemingly they may be opposed to each other economically.

Hon. Mr. BURCHILL: I have been very much impressed by the able presentation made by Dr. Hope, and I am reminded at this time of the youth of our country which are attending the universities, not only on this continent but in Europe, England and the world over. How much of this information which you mention is being made available to our university students? I would think

that one of the best channels for distribution of such information would be through high school and college students. In that way the youth of today would be thinking about these problems and their future solution.

Dr. HOPE: I would say that the students in universities probably get more of it than do people in most places. They are well informed through their courses in political science and economics.

Hon. Mr. BURCHILL: But is it the right kind of stuff?

Dr. HOPE: I think basically it is. They are a somewhat small group of people, actually.

Hon. Mr. MACLENNAN: But they can get in touch with larger groups.

Dr. HOPE: That is true, they can. As you well know, the communists start their program, not by getting in touch with the common man, but by appealing to the intellectuals. The labour movement of England, for instance, started with the intellectuals. Communism in India today is being started with the intellectuals of that country. They feel that when they can convince the intellectuals, the rest of the people will look up to them and listen to them, and then the doctrine will be spread down to the grass roots.

Hon. Mr. EULER: Is the press not one of the vital channels for the spreading of information in the country today?

Dr. HOPE: The press is very important, that is true; and also the teachers.

Hon. Mr. CRERAR: I agree with the remark made by Dr. Hope a few minutes ago, that generally speaking the intellectuals are appealed to. But do they not emphasize material values rather than moral values?

Hon. Mr. HAIG: No, no. That is not what they do.

Dr. HOPE: They have a philosophical valuation, but they would not stress the material values.

Hon. Mr. EULER: Do you not think that an organization such as your own—and I am not criticizing yours—or the manufacturers' association or labour unions primarily think of material things?

Dr. HOPE: Yes. Generally speaking, however, intellectuals do not realize how complicated the world is today.

Hon. Mr. BURCHILL: That is quite true.

Dr. HOPE: I was an intellectual for a while myself, and I suppose you could say I am now half an intellectual. But basically speaking, those who occupy the classroom and the pulpits of the country do not realize the complicated machinery of the business world today. We criticize them because they are impractical, and perhaps we should not; they have not been exposed to the business world. Naturally, they can build up a fine theoretical framework of how it should work, but in the practical world it does not work. We find in labour and agricultural organizations we have to give and take to make things go.

Hon. Mr. HAIG: Senator Crerar comes from a city in which the C.C.F. movement was first started by one professor in a college in that city. He had no business sense or no experience in organization; he just had a theory and a basic moral philosophy of C.C.F. I refer to Dr. Bland of Wesley College. I was there at the time, and I know something about that particular instance. These movements are often started by intellectuals, and they are often used by the communists to start their doctrine going.

Dr. HOPE: To get back to the point of how to get a better understanding through teachers in universities and so on of the international trade problem, I think there is much activity along this line in our universities today. I have confidence that our teachers of political science are teaching basically good and sound international trade theories; but it is quite different out in the business

field. For instance, if you are raising fruit in British Columbia, and you see a special type of apple coming on to the market which you know will make a difference of \$500 for you in this year's crop, it is pretty difficult for you to be a free trader. My father used to say that it depended on what part of Canada you lived in whether or not you were a free trader. He also used to say—and Senator Crerar knew him—"if I lived on the Prairies I would be a free trader, but as I come from British Columbia, I am not."

Hon. Mr. EULER: I have known Conservatives—and I am not talking politics now—who while living in Ontario were strong protectionists, but when they went west they became free traders.

Hon. Mr. HAIG: I am one of them.

Hon. Mr. BEAUBIEN: Is it not so that a lot of western farmers are becoming protectionists today?

Hon. Mr. LAMBERT: Social democrats, I would call them.

Dr. HOPE: I think basically the west is for lower tariffs and free trade.

Hon. Mr. HAIG: Especially the Prairies.

Hon. Mr. CRERAR: If you will give me an opportunity, Mr. Chairman, I would like to elaborate for a few moments on Dr. Hope's remark of a few minutes ago about intellectuals.

The CHAIRMAN: Yes.

Hon. Mr. CRERAR: I think over the past one hundred and fifty years the thinking of the world has been tremendously influenced by intellectuals who have a materialistic conception of history—Carl Marx was one of them—and had complete oblivion to the importance of moral values. They said we can organize the world, not in the sense of the morality that was derived from the old Jewish and Christian traditions—that is just an opiate for the people—but we can through the power of the intellect reform the world and bring about a society in an everlasting state of happiness. I do think that influence has been responsible for a great deal of the trouble which exists in the world today. It started with the German philosophers, who had that concept of history, and it spread to Great Britain. One such person died just the other day in Britain. He was an intellectual materialist, and a very able man; he evolved a philosophy of free thinking, but finally found refuge in the Christian faith. I think the influence of his teaching is to be found all over Europe.

Hon. Mr. BURCHILL: We are delighted with the brief presented by Dr. Hope, and I would like to express the feelings of the committee of grateful appreciation for the information he has given to us.

Hon. Mr. HAIG: Further, I think it is the most able presentation we have had before any of our committees in a long time.

Hon. Mr. CAMPBELL: If I may, I have one or two more questions I should like to put to Dr. Hope. I gather from your presentation that your opinion is that everything must be done to encourage importation from the sterling area or to make facilities available by which the sterling area and European countries can increase their exports. Do you subscribe to that theory?

Dr. HOPE: Yes.

Hon. Mr. CAMPBELL: What in your opinion is the most effective way of doing that? Is it by lowering tariffs or by assisting these countries by some other means such as the extension of credits or giving them some leadership in the production field to increase their efficiency? What is the most effective way of helping them?

Dr. HOPE: I would think that further credits, from the point of view of helping them, is not the solution. There is a definite time limit, as it were,

on that; they have had credits for so long now that they seem to have reached their maximum benefit as a result of them. As a result of receiving credits they have improved their position, but they do not seem to be making any further headway. There is still a gap of a few billion dollars that they do not seem to be able to bridge. Therefore, the only solution is to ask them, if we lower our tariff structure and make it a little easier for them to get their goods over here, will they co-operate with us and keep their costs in line so that their goods will sell here. That is all we can do. It is an extremely difficult situation: We cannot tell them they ought to do this or ought not to do that. We know their costs are somewhat high, and perhaps they are working too few hours; and further, every time the price of goods jump five or ten per cent there is a rush to increase wages. We will have to tell them that that should not take place. We can reduce tariffs by our own power, and we can ask them to do certain things, but I do not think we can go further. The truth is that Europe could use more capital; they admit that in many places, in order to help increase their efficiency.

Hon. Mr. CAMPBELL: That is the point I was coming to.

Dr. HOPE: But the point is this, how can we persuade Canadian investors to invest their money in France, Italy, Denmark, Holland or Britain? I know someone has come up with a plan like that—we have one in our office now—which amounts to the suggestion that Canada should own Britain; that is, Canadians should buy British shares. I do not have any money to invest, but I am sure that if I were investing on a large scale I would look at alternative opportunities in Europe and in Canada, and I would take note of the boom presently taking place in Canada, and I am sure I would be inclined to put my money on Canada rather than on Europe. For one reason, they might in Italy have a confiscation of capital.

Hon. Mr. CAMPBELL: But is there not another important factor which has prevented them from increasing their efficiency and expanding their factories to which no reference has been made: I refer to the extremely high taxation that is facing industry generally throughout Europe and particularly the United Kingdom.

Dr. HOPE: That again comes by reason of a certain amount of welfarism.

Hon. Mr. CAMPBELL: The point I am making is this: Is it possible, under their system of high taxation, without credits, to bring up their plants to a point of competition in manufactured goods in the world market, even with a reduction of tariff?

Dr. HOPE: Only if they can expand. It is true that they will have to increase their efficiency through some capital expenditures. You are suggesting that even if there was some reduction in tariff, they would not be able to have the capital or the surplus to expand by reason of high taxation. The answer is partly what Mr. Butler did yesterday. You will have noticed that he was quite bold. The popular move has been that business is making too much money and there should be a heavy surtax placed on it. Most of us realize that such a policy reduces the possibility of ploughing back into the business any of the profits; and therefore, if there is to be capital, it eventually must come from the government. Britain is going to take the gamble of trying to get business to do the very thing you are suggesting, that is plough back more of its earnings, through the reduction of the kind of taxation which has prevented that very thing.

Hon. Mr. CAMPBELL: What I was trying to get at was the relationship between the importance of some form of credit and the lowering of tariffs. Is it not true that in our own country we are over-borrowing in relation to capital invested in most corporations? Or are you familiar with that situation in Canada?

Dr. HOPE: You mean that there is too much bond issue in comparison with the common stock?

Hon. Mr. CAMPBELL: Too much borrowing of money in comparison with the working assets and capital invested, which has resulted from high taxation in Canada. If that is so here, it certainly must be far worse in the United Kingdom and other European countries today.

Dr. HOPE: I am not familiar enough with that to say. There is much risk if you have a very high debt structure. But I cannot answer as to that. I know that this report mentions that in many cases European efficiency production could be stepped up here and there by a certain amount of new capital investment, but they do not hold out any hope that North America will invest there. That table shows that last year the United States invested 1.6 billion dollars in foreign loans, but when you look to see where the investments were made, you find that they were made in Canada, in Venezuela, in Bolivia, and a few other places, such as Persia, where they want oil. Virtually none went to Europe, and it is Europe that needs the money. It may be that the taxation structure you suggest might help.

Hon. Mr. CAMPBELL: I am surprised the chairman has not asked you something about gold during this discussion? But you do admit that the United States did put \$20 billion in there from 1947 on?

Dr. HOPE: Yes.

Hon. Mr. LAMBERT: What is there to show for that?

Dr. HOPE: Oh, they can show a great deal of recovery in Europe. Europe at one time was near communism. Today she is not.

Hon. Mr. LAMBERT: West Germany has shown progress.

Dr. HOPE: And Italy is in better shape. These countries were in pretty desperate shape five years ago. Britain is in a better condition too. Most people admit that things have much improved. But they seem to have reached what in an engine would be called the dead centre, when the pistons come to the dead centre, as far as they can go, without an additional push. Maybe there now needs to be something new and more vital to get it going on its own steam. Let us assume, in theory, that tomorrow the United States Government said, "We are going to reduce your taxes five billion dollars, because that is what we are giving to Europe." Automatically, you would think, it would increase the money in the pockets of the people paying the taxes. Then the government might say "We are allowing you that so that you can buy five billion dollars' worth of European goods." In theory that is the solution. Europe could send the goods over, and the United States could use the five billion dollars to buy them.

Hon. Mr. EULER: If by reason of very high taxation, we will say in Britain, it becomes impossible for industry to provide enough money to expand its business, and as a result it becomes necessary for governments instead of individuals to make these investments, are you not on the direct road to state socialism?

Dr. HOPE: Well, it depends what they do. If the government invested in such things as hydroelectric plants—like our own Ontario Hydro—I would not say it would mean that, but if the government invested in an industry which produced consumer goods, I would say yes. I do not see any indication yet that there is any suggestion of the government investing money in the consumer goods industries. That would be the beginning of a very momentous change in policy. But as long as we stick to public works I do not think the danger arises.

Hon. Mr. EULER: Well, did they not do that in Britain? They took over the steel industry.

Dr. HOPE: Yes, they took over the steel industry, but the present government is going to swing it back to private control. That is one of a few examples. They have come to the point where, in Britain, they consider, and have long considered in Britain that coal is a public utility.

Hon. Mr. EULER: They started to do it in Saskatchewan, did they not?

Dr. HOPE: Yes. They back-tracked a bit there.

Hon. Mr. EULER: Brick yards.

Dr. HOPE: Yes. And they back-tracked there a bit, too. Britain's policy lately has been to try to earmark some money to send to Canada, even. She admits that she wants capital to build up enterprise in Britain, but she is allowing investors to put up a certain amount of money to get some of the "gravy" in Canada.

Hon. Mr. CAMPBELL: But does not that establish that foreign investment, to Britain, has always been just as important as trade?

Dr. HOPE: Yes.

Hon. Mr. CAMPBELL: Is that not one of their great problems,—that they have lost so many of their foreign investments?

Dr. HOPE: And are trying to build them up again.

Hon. Mr. CAMPBELL: Yes.

Dr. HOPE: That is right. In some cases their goods cannot get in here, and they may think it better to put up a factory over here. There is a great deal of that going on. They have it in mind to build more branch factories if they cannot export their goods and sell them here.

The CHAIRMAN: Do any other honourable senators wish to say anything?

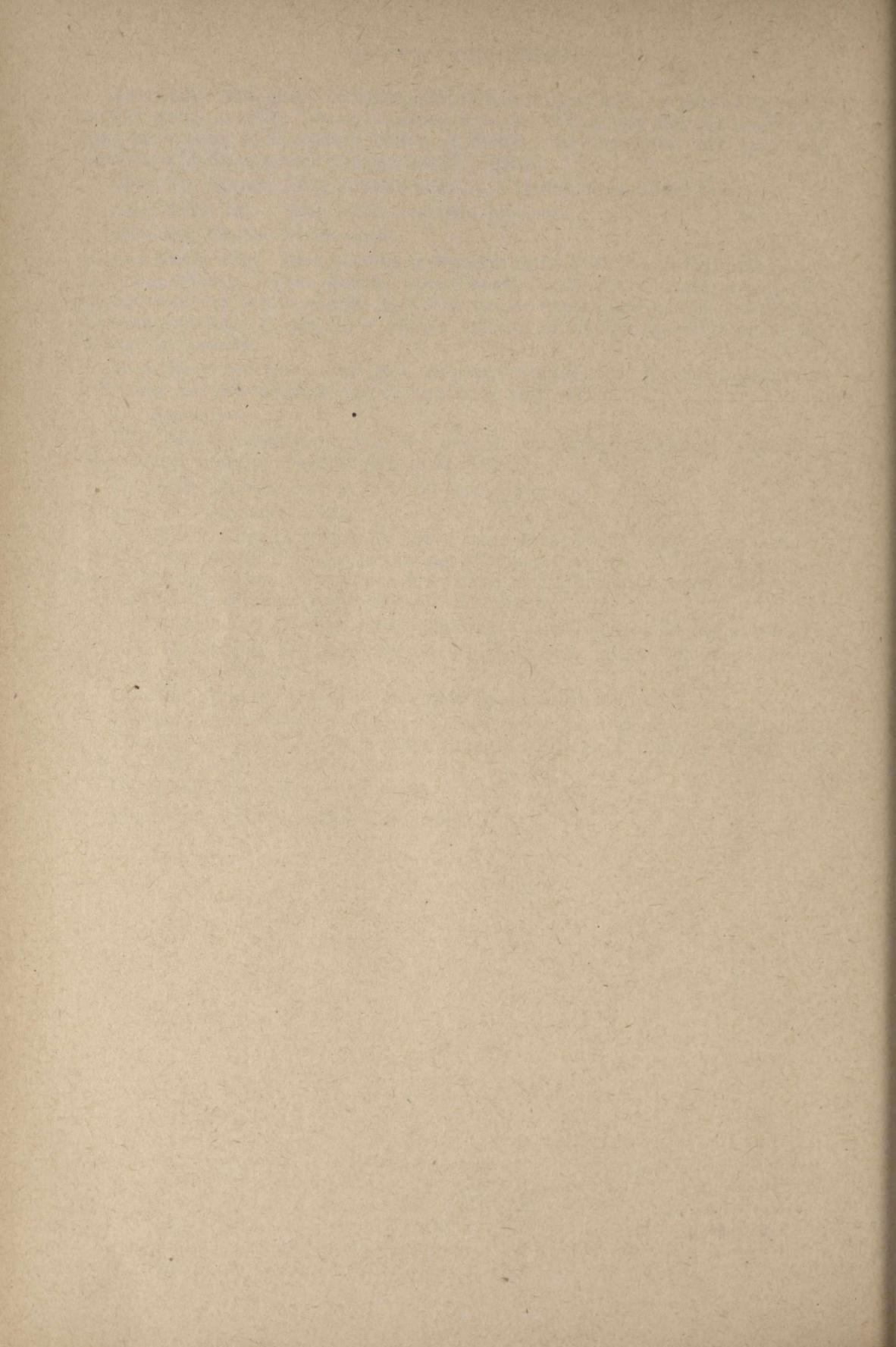
Hon. Mr. EULER: I move a very hearty vote of thanks to Dr. Hope for his excellent presentation.

Hon. Mr. CRERAR: I will be very glad to second that.

The CHAIRMAN: Yes, Dr. Hope, you have given us a wonderful brief and a great deal of information and food for thought. I know it is going to help the work of the committee in the future.

Dr. HOPE: Thank you very much.

Whereupon the committee adjourned.



SESSION 1952-53
THE SENATE OF CANADA



Proceedings of the
STANDING COMMITTEE ON

CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be
the most practical steps to further implement Article 2
of the North Atlantic Treaty.

No. 3

WEDNESDAY, APRIL 22, 1953.

The Honourable A. N. McLEAN, Chairman

WITNESSES

Mr. D. P. Cruikshank, President, Canadian Council,
International Chamber of Commerce.

Mr. J. G. Nelles, General Manager, Canadian Council,
International Chamber of Commerce.

Dr. D. B. Marsh, Economist, Royal Bank of Canada.

CANADIAN TRADE RELATIONS

The Honourable A. N. McLEAN, *Chairman*

The Honourable Senators:

Baird	Duffus	McDonald
Bishop	Euler	McKeen
Blais	Fraser	McLean
Buchanan	Gouin	Nicol
Burchill	*Haig	Paterson
Campbell	Howard	Petten
Crerar	Hushion	Pirie
Daigle	Kinley	*Robertson
Davies	Lambert	Turgeon
Dennis	MacKinnon	Vaillancourt—(30)
Dessureault	MacLennan	

35 Members—(Quorum 7)

*Ex officio member

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Thursday, February 26, 1953:

"That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—"They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(a) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(b) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all".

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry.

L. C. MOYER,
Clerk of the Senate."

THE HISTORY OF THE

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BY J. C. SMITH

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MINUTES OF PROCEEDINGS

WEDNESDAY, April 22, 1953.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 10.30 a.m.

Present: The Honourable Senators: McLean, Chairman; Bishop, Burchill, Campbell, Crerar, Euler, Hushion, Lambert, McDonald, Paterson, Pirie and Turgeon—12.

Consideration of the order of reference of February 26, 1953, was resumed.

The following were heard:—

Mr. D. P. Cruikshank, President, Canadian Council, International Chamber of Commerce.

Mr. J. G. Nelles, General Manager, Canadian Council, International Chamber of Commerce.

Dr. D. B. Marsh, Economist, Royal Bank of Canada.

Further consideration of the order of reference was postponed.

At 12.15 p.m. the Committee adjourned until tomorrow, Thursday, April 23, 1953, at 10.30 a.m.

ATTEST.

JOHN A. HINDS,
Assistant Chief Clerk of Committees.

MINUTE OF PROCEEDINGS

The meeting was held on the 15th day of January 1900 at 8 o'clock in the evening at the residence of Mr. J. H. [Name] in the city of [City] State of [State]. Present were [List of Names]. The meeting was called to order by the President, Mr. [Name]. The minutes of the previous meeting were read and approved. A report was made by the Secretary, Mr. [Name], and was also approved. The following resolutions were adopted: [List of Resolutions]. The meeting adjourned at 10 o'clock.

MINUTES OF EVIDENCE

THE SENATE,

OTTAWA, Wednesday, April 22, 1953.

The Standing Committee on Canadian Trade Relations which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 10.30 a.m.

Hon Mr. McLEAN in the Chair.

The CHAIRMAN: Honourable members, I will call the meeting to order. This is the third meeting, as we all know, of the Canadian Trade Relations Committee since reference was made to us of a resolution introduced in the Senate on February 12 and, after considerable debate, was passed, and referred to us on February 26.

We have already heard the resolution read several times, and I think everybody is familiar with it.

We are highly honoured this morning to have with us representatives from the International Chamber of Commerce, Mr. D. P. Cruikshank, President of the Canadian Council, Mr. J. G. Nelles, General Manager, Mr. Carl Bergithon, Assistant to the General Manager, and Dr. D. B. Marsh, an Economist with The Royal Bank of Canada.

I am very glad to call on Mr. D. P. Cruikshank, the President of the Canadian Council of The International Chamber of Commerce, whom I understand has a brief, and if it is the will of the Committee, I will now ask Mr. Cruikshank to present his brief.

Mr. D. P. CRUIKSHANK: Mr. Chairman, and honourable gentlemen, Members of the Standing Committee of the Senate on Canadian Trade Relations, I just want to say this will be rather long, and if you would rather that I did not read it, please say so.

On behalf of the Canadian Council of the International Chamber of Commerce I should like to thank the members of this Committee for the opportunity to present the views of the International Chamber, "with respect to this general question," as your letter of February 26th, 1953, stated, "of increased multilateral trade between the nations of the free world, which is of such vital importance today." As the leading international private organization comprising all types of business, industry and commerce, the International Chamber has been particularly concerned with the question of multilateral trade for some thirty-four years since its founding in Paris, France, in 1919. The Chamber now has national sections or committees in some 30 countries, and the Canadian Council, which was established in 1945, is very pleased indeed to commend the initiative of Senator McLean and his Committee in focusing attention in Canada on the general problem of world trade.

At the outset, I should like to say that in presenting our views to the Committee we did not feel that it was necessary to review the statistical position of world trade today and its accompanying balance of payments, with the relationship of Canada thereto, as such figures will be as readily available to the Committee here in Ottawa as they are to our own group. We have also not attempted to outline the nature and scope of the various international governmental organizations dealing with the problem, such as the International Monetary Fund, the International Bank, the General Agreement on Tariffs and

Trade, etc., as the Committee will have such information close at hand and may have the advice of numerous government officers who have been connected with actual operation of such bodies. The International Chamber, I may add, has also an official connection with the United Nations through its status as a non-governmental consultant in "Category A" to the Economic and Social Council.

What we propose to do this morning is to draw your attention to some of the more recent policy statements of the International Chamber of Commerce, which I feel might be helpful to your Committee in the broader consideration of steps which Canada might take to improve trade relations. In doing so I would like to emphasize that the statements of policy to which I shall refer represent the considered opinion of prominent businessmen in many countries. While the Canadian Council has not as yet participated fully in all the detailed international committee work which has led up to the various Resolutions of the Chamber, its representatives have attended its biennial Congresses abroad and many of its committee meetings and, as a consequence, we have accepted in principle the general thesis underlying all the International Chamber of Commerce's policy, namely, that of more liberalized world trade with an expanding volume of imports as well as exports, the reduction of special restrictions and formalities to a minimum, the free convertibility of currencies, the creation of a favorable atmosphere to foreign investment in capital-importing countries and the retention of trade in private hands.

With regard to the Committee's desire to study improved trading relations with the countries signatory to the Atlantic Pact, we would submit that the adoption of the International Chamber's principles and recommendations by such countries would indeed improve their economic relations, but the problems besetting world trade today can only be solved by the adoption of such principles by all trading nations.

I. Convertibility of Currencies

The International Chamber of Commerce takes a fairly optimistic view of the question of re-establishing convertibility of currencies, which today essentially means that all currencies of the free world should be readily convertible into U.S. dollars. A Committee of the I.C.C. Commission on Commercial and Monetary Policy recently examined the question of how to provide, in case of need, facilities for countries whose monetary reserves are insufficient to bear the immediate impact of a free exchange market. This approach was based on the assumption that even though the establishment of free exchange markets might be possible now, there would likely arise temporary payment difficulties, and means would have to be established to tide individual countries over such short-term periods.

The International Chamber of Commerce has consistently taken the attitude that a primary requisite to the re-establishment of the convertibility of currencies was the creation of internal financial stability, that is to say, a reduction in deficit financing, a general steering away from inflationary policies and the establishment of internal price stability. The International Chamber of Commerce has felt that it must be realized that a country's domestic policy has a direct bearing on that country's balance of payments situation. In this connection the Report of the Sub-Committee which was published in February of this year states: "The re-establishment of convertibility is not a goal in itself but will result naturally from the restoration of general internal equilibrium in the individual countries and, when undertaken with sufficient safeguards, it will at the same time help in eliminating the danger of recurrent crises and in restoring monetary confidence, thus contributing to a recovery in savings and an expansion of productive investment."

The International Chamber of Commerce takes the view that a number of countries have gone a long way in re-establishing internal stability but that a number of problems still stand in the way of effective working of convertibility.

One factor is that in many countries public expenditure still remains very high, in some, as much as 35 to 45 per cent of the national income, for such purposes as government-controlled investment in housing, welfare, nationalized industries, etc. Not only is such public expenditure apt to leave budget deficits but it imposes a very high tax burden with the result that, in the words of the Report, "The spirit of enterprise is deadened, costs are increased and the flow of savings is reduced."

Another difficulty, of course, is presented by the restrictions and barriers which impede the flow of world trade and here I would like to quote the Report at greater length:

In the first place, there are the restrictions imposed with greater or less justification for balance-of-payments reasons by countries which have found themselves in particularly difficult situations. During the transition period they have been able to resort to trade restrictions, more especially as emergency measures; in administration there is, in fact, a tendency to consider the immediate rather than the ultimate effects. It has, however, been found again and again that a reduction in imports has not led to a contraction in spending but has just caused money to be diverted to the home market, thus bringing about an increase in purchases of domestic goods and services, so that fewer of these have been available for export. Moreover, no country can really know the true value of its currency as long as it maintains severe import restrictions which impede the normal functioning of markets. The return to convertibility without a freeing of trade would be a mere sham, and there is no reason to suppose that this fundamental fact has not been realized: an abundant flow of trade and an adequate degree of economic freedom represent the only foundation upon which a sounder currency can be built.

But the restrictions imposed for monetary purposes which grew up during the war are not the only hindrance to the flow of trade; there are also the long-standing tariff-barriers, among which, of course, the U.S. tariff is of particular importance as far as the convertibility of foreign currencies into dollars is concerned. Fortunately, opinion in the United States—including that of important industrial circles—is beginning to demand substantial reductions in the existing duties and to realize the extreme importance for a creditor nation to accept the goods and services of other countries. Any other course would be tragedy. The amount of aid granted has brought it home to the average American that it may be more to his advantage to permit the entry of goods from abroad than to go on subsidizing other countries. It should no longer be possible for anybody to fail to recognize the common sense behind the slogan "trade instead of aid".

The Report of the International Chamber of Commerce's subcommittee on monetary reserves and convertibility, created by its Commission on Commercial and Monetary Policy, then considers the need for increased monetary reserves and some of the difficulties which a return to convertibility might have in its wake when gold and dollar reserves are barely adequate. As the Report says, "If reserves are slender every difficulty is likely to turn into a crisis." In the period of transition from a controlled to a free system in payments and foreign trade temporary deficits may have to be covered. Once convertibility has been re-established it is important that continuous liquidity be maintained in order to avoid a recurrence of the situation in 1931, when, after most countries had

returned to the gold exchange standard by 1929 and monetary confidence was restored in nearly all countries, a few weeks of crisis in short-term credits sufficed to upset the exchange stability which had been achieved gradually in the previous decade.

The Committee recognized the institutions which exist for maintaining stability in the international monetary reserves, mentioning particularly the European Payments Union which operates as part of the Organization for European Economic Co-operation program and the International Monetary Fund as well as the International Bank for Reconstruction and Development. The International Chamber of Commerce Committee, however, questions whether it will suffice to rely upon the means possessed by these institutions particularly as the International Monetary Fund "has still to show in what way it can effectively use the \$3.0 billion in gold and dollars which it has at its disposal."

In the Report of the subcommittee which has been adopted by the International Chamber of Commerce Council it is proposed as a further step to strengthen the international liquidity position that convertibility funds be established in the financially strong countries. Such convertibility funds would serve the purpose of increasing international liquidity as required to buttress the newly-freed exchange markets and provide for countries seeking to achieve convertibility the means of action in case of future temporary difficulties.

With regard to these proposed convertibility funds in financially strong countries the Report says:

These funds should be authorized to undertake appropriate transactions and in each case sufficient safeguards must be designed to ensure that the country granted facilities by the Convertibility Funds will take all the necessary steps promptly to restore its internal and external balance. The activities of the various Funds which are established must be duly coordinated.

A precedent for such cooperation may be found in the functioning of the Tripartite Agreement which came into being in the autumn of 1936 upon the issue of simultaneous declarations by the Governments of France, Great Britain and the United States, who were subsequently joined by three other governments.

The Tripartite Agreement, never formally terminated, provided valuable experience which may well be given careful consideration in conjunction with any action directed towards the re-establishment of currency convertibility. Convertibility will necessarily mean convertibility into dollars and, once it is established, it will be equally in the interest of countries outside the United States and in that of the United States itself to ensure that it is maintained. Experience has shown that, in addition to the steps taken in the internal economy of the individual countries, special measures must be adopted to safeguard the international liquidity position in times of exceptional stress.

In this newly to be established system of Convertibility Funds the role to be played by the United States is, of course, particularly important. It may be recalled that in 1934 the U.S. established a Stabilization Fund of \$2 billion, now largely utilized. Under present circumstances, with commodity prices more than doubled, the volume of international transactions greatly increased, and the number of countries to whom credits might be granted substantially larger, this figure would have to be appropriately increased. As in the case of the Tripartite Agreement, the Fund established by each country would remain under its exclusive control.

The creation of such Funds should not be regarded merely as a means of rendering financial assistance to other countries; it is in the interest of the financially strong countries themselves to have liquid resources

available in case of need. There is no doubt that one of the reasons for the intensity of the depression of the 1930's was the additional complication of the liquidity crisis of 1931. It should not be forgotten that the losses suffered in particular by the economy of the United States owing to the extreme severity of the great depression have been estimated at something like \$200 billion (at the prices prevailing at the beginning of the 1930's, which were lower than those ruling at present).

Should it be decided in the near future or at a later date—in the event, for instance, of a deflationary fall in prices—to increase the world price of gold (as provided in the Articles of Agreement of the International Monetary Fund), then part of the revaluation profits would probably in any case be used to provide resources for Convertibility Funds. In the absence of a change in the gold price, it would seem appropriate to finance the proposed Funds by allocations of specially created government securities, such as that made in the 1930's in Great Britain and the Netherlands.

The effectiveness with which these Funds will create confidence in the various currencies of the western world will depend to a very considerable degree upon their size; for the very knowledge that there are substantial resources which may be called upon in case of need will have a reassuring influence.

To sum up, the attitude of the International Chamber of Commerce on the convertibility of currencies is as follows:

- (a) That the present balance of payments position presents an opportunity for decisive measures to be taken towards convertibility.
- (b) That for countries working their way back to convertibility the primary requisite is the restoration and maintenance of their internal financial stability.
- (c) That as soon as the reserve position makes it possible, effective foreign-exchange markets be re-established under which a pattern of rates can be reached which corresponds to economic realities.
- (d) That countries with convertible currencies and ample reserves should,
 - (1) Liberalize their trade. There can be no hope of a restoration and maintenance of convertibility without a lowering of trade barriers resulting in an expansion of world trade. The creditor nations have a special responsibility in this respect.
 - (2) Establish convertibility funds sufficiently large to ensure the revival of confidence. The convertibility funds would serve the purpose of increasing international liquidity, which is needed not only to buttress the newly freed exchange markets but also to provide countries seeking to achieve convertibility with the necessary means of action in case of future temporary difficulties from which the world is never safe. These funds should be authorized to undertake appropriate transactions, and in each case sufficient safeguards must be designed to ensure that the country granted facilities by the convertibility funds will take all the necessary steps promptly to restore its internal and external balance. The activities of the various funds which are established must be duly coordinated.
 - (3) *Take other measures to relieve the foreign exchange markets*
An example of this would be the willingness of a creditor government to accept payment in the currency of the other

country. The sums thus received could be applied by the recipient to constructive economic projects either in the debtor country or elsewhere which would tend to relieve the pressure for additional budgetary operations for foreign expenditures. In this way the demand for scarce currencies on world markets would be reduced.

II. *Foreign Investment As It Affects Balance Of Payment And Trade*

The living standards of the world depend on the volume of international trade. In addition to free exchange of goods and services, however, there should also be a free flow of capital investment. This question is tied closely to that of the convertibility of currencies. Just as the exchange of goods cannot prosper under trade restrictions and foreign exchange control, the movement of capital funds is hampered by the absence of free exchange markets. A much freer movement of capital than exists today would not only aid the volume of trade but would also tend to stabilize the balance of payments situation, provided flight of capital was prevented.

The importance of capital movements to the balance of payments situation has been amply demonstrated in the case of Canada itself. Canada, however, has enjoyed a unique position in the post-war years with regard to the investment of foreign capital in its industry and resources. Other countries have been less fortunate. The bulk of capital investment in foreign countries since World War II has been for government or inter-governmental account.

The kind and degree of economic development which countries are seeking to achieve today cannot take place without a big expansion of international private investments. A recent statement by the International Chamber of Commerce Council makes this observation and adds:

Government funds are not suitable for that purpose and are, moreover, unlikely to be sufficient. Private investment alone has the dynamic and realistic qualities required by giving full scope to individual inventiveness, enterprise and risk-taking. Direct business investment, for instance, represents the best possible combination of capital, technology and management.

There are undoubtedly fields of development in which government funds have an essential role to play. But government financing should not be allowed to encroach upon areas which can best be served by private capital and enterprise. Nor can countries that fail to take the proper measures to attract and protect private investments expect to receive government funds as a substitute for private capital.

As a means of promoting the flow of private investments to countries requiring foreign capital for the development of their resources, the International Chamber of Commerce has drawn up an "International Code of Fair Treatment for Foreign Investments", which takes the form of an agreement for signature between governments and describes the conditions which would create a favourable climate for the greater flow of investment funds. The International Chamber of Commerce Code has already been submitted to all member governments of the United Nations and is believed to have exercised considerable influence. This Code is published in the International Chamber of Commerce's Brochure No. 129, copies of which we are placing in the hands of your Chairman for the information of the Committee.

In brief, the Code, or Draft Treaty, provides that the parties thereto shall adopt legislation within their respective countries providing for fair treatment of foreign capital, including respect for contractual obligations, compensation in case of nationalization and arrangements enabling profits derived

from the investment of such foreign capital to be transferred to the country of origin. The Chamber believes that the capital importing country should treat foreign investments on the same favourable basis as investments made by its own nationals.

III. *Simplification of Trade Formalities*

The International Chamber of Commerce's Committee on Formalities in International Trade has worked assiduously over a long period of time towards the simplification of trade formalities. The work of the International Chamber of Commerce in this regard has met with considerable response from national governments.

The 34 governments being the Contracting Parties to the General Agreement on Tariffs and Trade at their 7th Session in November, 1952, adopted two sets of recommendations with regard to trade formalities and approved the text of an International Convention to Facilitate the Importation of Samples and Advertising Material, all of which were based on submissions made by the International Chamber of Commerce.

The first set of recommendations calls for the abolition of all consular formalities (consular invoices and visas) as soon as possible and, in any case, by the end of 1956, and a sharp reduction of consular fees and formalities during the interim period. The second aims at cutting down to the strict minimum the number of documents required by the customs authorities for the entry of goods. The Convention on Commercial Samples and Advertising Material was opened for signature by governments on February 1st, 1953.

In response to a resolution of the Council of the International Chamber of Commerce on "sanctity of contracts" the Contracting Parties of GATT also issued a recommendation calling upon all the signatory governments to make every effort to permit the fulfilment of bona fide contracts concluded before the imposition or intensification of quantitative restrictions.

The Contracting Parties have also decided to investigate two other subjects proposed for study by the International Chamber of Commerce, namely, customs valuation under Article VII of GATT and administrative regulations concerning the nationality of goods.

IV. *State Trading*

The International Chamber of Commerce has consistently opposed the intervention of governments in international trade. At its XIth Congress in Montreux, Switzerland, in June, 1947, the International Chamber of Commerce adopted a resolution on: "The Merchant's Role in International Trade" which declared that,

The International Chamber of Commerce is of opinion that bulk buying by governments, as a method of ensuring supplies from abroad, is frequently both uneconomic and unsuccessful, fails to stimulate increased world production of the commodity in short supply, leads almost inevitably to collective selling by the producers of the commodities involved and, by introducing politics into business, creates international tension.

The Chamber urges that the functions of purchasing should return as soon as possible to the recognized trade channels and to Exchanges, which have acquired a detailed and expert knowledge of the various markets over a long period of trading, and which provide facilities essential to industry and commerce.

The Canadian Council of the International Chamber fully subscribes to the above resolution and particularly draws the attention of the Committee to the last paragraph of the resolution which urges that the functions of

purchasing should return as soon as possible to the recognized trade channels and to free exchanges. We strongly believe that the open market, where private traders may buy and sell in accordance with their needs, is the only satisfactory means of reflecting the actual supply and demand of commodities entering into international trade and hence of establishing realistic world prices.

In conclusion, the Canadian Council commends to this Committee of the Senate the above-mentioned views of the International Chamber of Commerce and trusts that they may be of assistance to them in seeking solutions to the many problems that surround the present flow of trade between nations.

The CHAIRMAN: Thank you very much, Mr. Cruikshank.

Mr. CRUIKSHANK: I am sorry it has been so long, but it does express our views.

The CHAIRMAN: Honourable members, the meeting is now open for questioning, if any honourable member wishes to question Mr. Cruikshank. There is a great deal of meat in what he has said.

Hon. Mr. TURGEON: Mr. Chairman, may I ask a question?

The CHAIRMAN: Certainly.

Hon. Mr. TURGEON: In your recommendation for freer trade, Mr. Cruikshank, do you include any steps which would be dangerous to any particular local interests?

Mr. CRUIKSHANK: The recommendation for what, Senator Turgeon?

Hon. Mr. TURGEON: For freer trade, and greater imports? Do you provide any caution against injury to an industry which is carrying on business under difficult conditions?

Mr. CRUIKSHANK: I do not think it has ever come up. Perhaps Mr. Nelles could answer that better than I.

Mr. NELLES: I think it was considered, Mr. Chairman, but the recommendation was in general terms. I think that each individual country, when negotiating such an agreement, would no doubt look after certain interests. It has been the hope of the Chamber that any sectional interest would not wreck the general framework under which world trade is to be liberalized.

Hon. Mr. PATERSON: Mr. Chairman, is not this whole discussion just on the fringe? The meat and heart of the whole thing is the standard of living in the various countries. May I give you an illustration. I can buy trout flies in Vancouver for twenty-four for \$1.00, tied in Japan. The shipping going through the Panama Canal is largely Norwegian or Greek. Why? Because their standard of living is so low, that they can afford to carry that trade. Are we not all afraid of foreign competition? Would it not create unemployment, if we allow the Japanese, who will work for fifty cents a day, to compete with men in our own industries?

The meat of the nut is the standard of living in this country, and in the United States they are doing their best to build up the standard of living in foreign countries, but it will be a long process.

Hon. Mr. CRERAR: That is a very difficult point, Mr. Chairman. It does seem to me that low-priced goods will tend to improve the standard of living, rather than reducing it. If I can buy a suit of clothes, for instance, from Japan twenty per cent cheaper than I can buy it in Canada, I have a sort of vague idea Mr. Chairman, that helps my standard of living. It is true that may be the means of the dislocation of some labour, but through these artificialities, very often we direct labour into the wrong channels, and into the wrong places. If there is any virtue in the proposition very admirably outlined in this brief, the increase in world trade—the general expansion of trade—will promote general wellbeing. I do not know about this Japanese business. I

know we sell the Japaneste barley, we sell the Japanese wheat, we sell them lumber, and probably newsprint, and many other things. Just how would we be able to do that if we refused to accept their goods?

Hon. Mr. PATERSON: You do not want your local tailor to be on relief, do you?

Hon. Mr. CRERAR: No. I think in theory, if we carry it out logically, we would be creating tariff barriers every time industry was threatened to be in trouble.

I recall back twenty-five or thirty years ago when the Western farmers were on the march, and were wanting free agricultural implements, and it was held in many places that such a thing would promote unemployment, and would penalize our Canadian implement industry, and general chaos would result.

Well, the duties were taken off agricultural implements. It is true there may have been a little readjustment necessary. But what has followed? We have an agricultural implement industry in Canada today that is on a more sound basis than it ever was in its history.

I think, if we are in earnest about seeking the expansion of world trade, we are getting to the point where we must have currency convertibility, which can only come through an expansion of world trade, solidly based, and I think we have to do some thinking about that, Mr. Chairman.

The CHAIRMAN: I think there is a great deal in what you say, Senator Crerar. The world is divided today. We have the iron curtain sphere of influence, and we have the free world sphere of influence, and if the nations of the free world have barriers placed around them, we will wreck the free world situation completely. In regard to the NATO nations; it is not a question of whether they are going to do anything or not; they are going to do it. They will have to do a certain amount of exploring, and how are we going to do it? If there are too restrictive clauses, it may fall into the hands of the vested interests, and then there are too many jobs, and high-powered executives, who will become a part of the routine of the nation.

When these were put on, it was to meet a temporary crisis, but that crisis has gone on from year to year, and I think our position here is, as a fact-finding body, that we explore the conditions.

Going back to the remark by Senator Paterson, in regard to the foreign shipping; is not their capital investment very low? I think some of the ships would sell for a song.

Hon. Mr. PATERSON: That is quite true, but it is their wages which keep them afloat now.

The CHAIRMAN: I notice, in regard to the NATO nations, they would like to do some shipping, but it is in the Act that the freight must be carried in American vessels. That is a point of grievance with these other nations—rightly or wrongly.

I noticed in the Press a suggestion that we should get more shipping. There is no question but what we could carry our purchases home. I know the shipping question is very important, and I have given a great deal of thought to it, because we have high living standards in both Canada and the United States, and as regards the shipping, we are paying more than double the wages. That makes it very difficult.

Hon. Mr. PATERSON: Senator Campbell was showing me some figures yesterday. I wonder if he would care to comment on them.

The CHAIRMAN: I have had several talks with Senator Campbell, and he has given this matter a great deal of thought. Perhaps he would like to say a word.

Hon. Mr. CAMPBELL: I think it would be better if you got the evidence from the witnesses who are here.

In regard to this question of shipping; there is a tremendous differential between the cost of Canadian shipping, and that of other countries. The difference between the cost of operating a ten thousand ton Canadian vessel as compared, for instance, with a Norwegian vessel, is about \$350 a day.

Hon. Mr. BURCHILL: In favour of whom?

Hon. Mr. CAMPBELL: In favour of the Norwegians. It is the cost to the Canadian shipping of around eight hundred dollars, as against a cost of about five hundred dollars to the Norwegians. The Italian vessels are even lower in cost, and also the German.

The CHAIRMAN: Apart from the capital cost?

Hon. Mr. CAMPBELL: That is purely for operation, provisions, fuel, wages and maintenance.

Hon. Mr. PATERSON: Do not forget the Japanese are even lower.

Hon. Mr. CAMPBELL: They will be lower undoubtedly. However, on the other hand, the operation of a Norwegian vessel is far superior to the British, the United States and the Canadian. A company in which I am interested charters Norwegian vessels in order to carry on business. I have been on these vessels and the interest the crews take in the maintenance of their vessels is most encouraging to see. They will do repairs afloat, which the crews of Canadian vessels would not think of doing. I do not think it is so much the difference in the standard of living as it is in the customs of the country. The Norwegians go to sea, and take pride in their work, and are willing to work at lower costs. But there is that differential. I would like to ask Mr. Cruikshank a question, if I may.

The CHAIRMAN: Certainly, Senator Campbell.

Hon. Mr. CAMPBELL: On page 7 you sum up the views of the International Chamber of Commerce in regard to the convertibility of currency, and then in paragraph 3, on page eight, you suggest that countries or creditor governments should be willing to take the currency of the other countries. Is that not what we are doing, in effect, by insuring foreign creditors, and insuring shipments of goods abroad—in the final analysis?

The CHAIRMAN: I think, Senator Campbell, it is that these goods are sold for Canadian currency. We take probably greater risks in selling them.

Hon. Mr. CAMPBELL: Where you have a method of insuring, and a country fails to pay, what is the remedy in that case for governments which stand behind these shipments? Has it not been considered at all, Mr. Cruikshank, by your Chamber of Commerce?

Mr. CRUIKSHANK: It is paid in Canadian currency, and if there is a loan in a foreign country, you are paid back in Canadian currency.

Hon. Mr. CAMPBELL: As far as the payment of the shipment is concerned, that is paid for in Canadian currency?

Mr. CRUIKSHANK: Yes.

Hon. Mr. CAMPBELL: What does the government get?

The CHAIRMAN: You have to go through quite a routine to ship that way. If the Canadian government paid a few thousand dollars—for instance, the Chinese ships which were sold, the Canadian government paid the bank three million or four million dollars, or whatever the amount was. Probably we gave it in the wrong place, in that connection.

Hon. Mr. CAMPBELL: A great deal of this discussion is theory and opinions. When you get down to the practical method of doing things, for instance, a shipment of goods to Brazil; there is no doubt today but that Brazil is having great difficulty in finding dollars to buy goods, and many people now have refused to send goods to Brazil, because they do not think they will be paid.

What I am saying is that the first practical step which Canada has taken is in the method of insuring any of these creditors and foreign countries, where you have a weak currency situation, or an uncertain political situation. Do you think more can be done by the Government of Canada agreeing to accept foreign currency, than they can by insuring in this way, and if so, what happens when they do get this foreign currency?

The CHAIRMAN: May I answer that, Senator Campbell?

Hon. Mr. CAMPBELL: I would rather the Witness would answer it, Mr. Chairman. After all, the International Chamber of Commerce has been studying these questions.

Mr. NELLES: Mr. Chairman, actually, while we do not come down to specific situations, the policy of the Chamber has been to try and draft practical rules and Codes of conduct for use by governments, in the hope that such situations would be straightened out. That is the reason for this Code of Fair Treatment for Foreign Investments. If the governments would adopt the Code and follow it to the letter, some of these difficult problems would be solved. But I do not think the Chamber of Commerce, nor any other organization, can foresee all the possibilities of what you might call "unmoral conduct" on the part of foreign nations. You cannot safeguard against all contingencies. But if the governments would adopt such Codes, and follow them through, we would not get into some of the difficulties in which we find ourselves today.

I might add a word to Senator Campbell's remark about tariffs and about shipping from the Far East. The Chamber has never suggested all tariffs should be withdrawn at one fell swoop, but trade must be liberalized progressively through governmental action and by carrying out their agreements in good faith. Certainly we have all kinds of standards of living in the world which affect our own industries, but primarily the Committee considered within its Terms of Reference the NATO countries.

We have been working largely with the countries of the western world in mind, and it has always been a problem, and will be for some time, that the low standard of living—in Japan and China—may force us to maintain a certain protection until their standard of living has come up somewhat closer to ours.

But the liberalization of trade and the institution of arrangements for converting funds are inter-dependent, and if these are carried out by governmental action with good will, and following the rules to which they agree, these things would be much nearer solution.

The United States has subscribed to this—at least it has not been officially adopted by the Senate—to this agreement on tariff and trade, but, nevertheless, the United States has been operating under it, but because of certain pressures in the United States, the rules have not been followed in the United States. There is nothing the Chamber, nor any other organization can do to force the American government to act in perhaps a better manner in respect to these obligations.

Hon. Mr. BURCHILL: We are interested in that question, too. I am thinking of our trade relations with Great Britain, particularly; I mean, our governmental trade relations. The Canadian Government loaned Great Britain a certain amount of Canadian currency for goods to be purchased in Canada. By arrangement the U.K. Government makes payments on that in Canadian dollars at the present time?

The CHAIRMAN: Yes, I understand they do.

Hon. Mr. BURCHILL: I thought of that in this way; I am just theorizing, but if the Canadian Government was willing to accept British currency—

pounds instead of Canadian dollars—for that alone, and, as you suggest, make investments in Great Britain with the money they receive, would not that be something you had in mind?

Mr. NELLES: Yes. With the operation of this plan, you would be able to transfer currency.

Hon. Mr. BURCHILL: And that would relieve the pressure of Canadian dollars in Great Britain.

Hon. Mr. CAMPBELL: That does not accomplish a single thing. If you sell to Great Britain, and take sterling, and then turn around and spend that sterling in Great Britain, and buy goods or services, you are back to your starting point again.

The CHAIRMAN: Senator Campbell, we do not have to necessarily spend it in Great Britain. It might be spent in South Africa, or Australia. I was discussing this with a gentleman in Jamaica a few weeks ago. They were starting the erection of a large hotel. They need hotels and playgrounds in Jamaica, and require a couple of million dollars, and there will be many Canadian and American subscribers to that fund. I spoke about that, and was told that any capital invested in Jamaica could be withdrawn at any time, that dividends and interest could be withdrawn, and it was absolutely free. In how many parts of the British Empire is there no exchange? You know the English pounds are not exchanged, nor the Australian pounds, and you know what the Russians did; they went out and bought the whole crop with British pounds.

Hon. Mr. CAMPBELL: I would like to hear the witness on that. The point is, what advantage do you get by the Government taking foreign currency, if you are going to spend it again, and I do not care where you spend it? The only advantage you have is by way of insurance, by which when the shipment of goods is finally made to a country which is unable to pay, then there is a domestic situation created in that country, and their currency is accepted, frozen and held by the country. Can you explain where there is any advantage in accepting Sterling and pounds, and then the next day spending it in Australia, or any place else?

Hon. Mr. CRERAR: Before the witness answers that, there seems to be a very important point raised by Senator Campbell. Let us take as an example one million bushels of wheat. Quite obviously our private traders in the ordinary procedure in regard to grain would not accept, as a condition of the contract, that they take payment in sterling for the one million bushels of wheat, for the reason that they paid in dollars for the wheat when they bought it originally. If the Canadian Government says, "We will sell one million bushels of wheat, and take sterling", then the Canadian Government must find the dollars to pay the farmers who produced the wheat, because they cannot say to a producer, "Here is so much sterling", because sterling is of no use to the producers.

Does it not boil down to this; if we take sterling for a million bushels of wheat, the Canadian Government has to provide the dollars, in the first instance, to get the wheat, and they accumulate the sterling, and what will they do with the sterling in the future? They may say, "All right, we will invest the equivalent of one million bushels of wheat in Britain, in some industry", but that boils down to this; that the Canadian Government is going to make a loan to Britain for that amount. That is the way I see it, and that is the point I think Senator Campbell had in mind, and I think it would be interesting if this group could have some elucidation of it if we can get it.

Hon. Mr. CAMPBELL: That would be interesting.

Mr. CRUIKSHANK: We have an economist here, Dr. Marsh, who might have a word to say.

Dr. MARSH: Mr. Chairman, I would say that any acceptance of sterling in return for Canadian exports would be *de facto* a loan. There is no doubt about that. I agree with what Senator Crerar has said. I think that the mere spending of that sterling in Great Britain need not put us back where we were before. It is exchanging our wheat for machinery, or whatever it may be, from Great Britain. That does not put us back where we were. It would facilitate the exchange of goods and services between nations. If we took the sterling temporarily, and spent it the next day, so much the better; if we took sterling and did not spend it, so much the worse. We have the contingency of goods and services, with the loan coming to us sometimes in the future. We cannot get the loan back, unless we take some goods in exchange for the sterling. I think that is the essence of the plan, and you would facilitate the exchange of goods and services.

I admit at once that taking sterling is a loan, and if you invest that in Great Britain, you are switching from one type of loan to another. Maybe that is a good thing to do, and maybe it is not. However, that is what it is. It might pay off.

Hon. Mr. CAMPBELL: May I make a comment on that statement? By doing that, you are doing exactly the same thing as you are doing by selling wheat to the United Kingdom for dollars, and spending the dollars in Britain.

Dr. MARSH: Oh, yes, quite.

Hon. Mr. CAMPBELL: That is why I do not understand why an effort to prevent that is not important.

Dr. MARSH: If you can sell it for sterling and spend the sterling, you do not have to have the dollars.

Hon. Mr. CAMPBELL: You cannot buy anything in Britain for sterling.

Hon. Mr. TURGEON: In connection with the discussion we are having about government intervention, and the exchange of currency, and the taking of payment in pounds; as Senator Crerar pointed out, it would have to be the government itself which would take the payment in pounds, and pay the Canadian exporters in dollars.

There is a paragraph in the brief with which I am very strongly in agreement, but I realize it would take some time to carry it out. I would like to know if there is not some conflict of thinking in regard to the Canadian Government taking pounds, and paying the Canadian exporters in dollars.

The statement on page 11, under heading No. IV, "State Trading" reads:

The International Chamber of Commerce has consistently opposed the intervention of governments in international trade.

With the recommendation:

At the XIth Congress in Montreux, Switzerland, in June, 1947, the International Chamber of Commerce adopted a resolution on: "The Merchant's Role in International Trade" which declared that,

The International Chamber of Commerce is of opinion that bulk buying by governments, as a method of ensuring supplies from abroad, is frequently both uneconomic and unsuccessful, fails to stimulate increased world production of the commodity in short supply, leads almost inevitably to collective selling by the producers of the commodities involved and, by introducing politics into business, creates international tension.

The Chamber urges that the functions of purchasing should return as soon as possible to the recognized trade channels and to Exchanges, which have acquired a detailed and expert knowledge of the various markets over a long period of trading, and which provide facilities essential to industry and commerce.

Can we exchange the currency? I am all for the convertibility of currency. Can it be brought about by the Canadian Government accepting for trade purposes the Sterling, and paying in Canadian currency, and can that be reconciled with the recommendation made in 1947 and assented to here today, for putting a finality to government intervention in state trading? I am strongly in favour of governments, as soon as possible, getting out of the state trade, but can the two be reconciled?

Mr. NELLES: In the course of time, yes. If you had a free exchange market, whereby exchange could move freely, there would be no reason for the Government being in the picture as it is today.

Hon. Mr. TURGEON: If I were an exporter, sending wheat or something to Great Britain, and the Government took payment in pounds, and gave me the money in dollars, and that was continued for any length of time, would that bring about state trade? It might assist in the convertibility of currency, but if it did not, by itself, bring about the convertibility of currency, I think it would merely perpetuate state trade, rather than end it.

Mr. NELLES: It could do, I think, under those circumstances.

The CHAIRMAN: I think Senator Turgeon, you will find that the Government has always showed these reserves and if you sell on a foreign market, you have these short term credits, and when you get the money to pay for the goods, you go to the Bank of Canada, and exchange the currency. As Governor Towers told us, we lost eighty million dollars of American reserves on account of the American exchange going down. We have Sterling as representing the purchasing power of the British Empire. I think it would be but a short time before, we lost ten million dollars or twelve million dollars, as it were, by holding up their reserves, for private banks who pay you for the goods you shipped.

Hon. Mr. PATERSON: To make it clear to me, what does "convertibility" mean? Supposing, as Senator Crerar says, we sell one million bushels of wheat and get sterling, say, one million pounds. What you maintain is that we could immediately convert that one million pounds into Canadian dollars.

The CHAIRMAN: That is right.

Hon. Mr. PATERSON: Who guarantees it? The Canadian Government takes the onus of guaranteeing those pounds as being good?

The CHAIRMAN: Unless we are free to hand it back to private enterprise, as Mr. Cruikshank says. I think he is suggesting that it be handed back to private enterprise. Then we take our own risks.

Hon. Mr. PATERSON: Would you take the pounds now?

The CHAIRMAN: No, because the Bank of Canada does not recognize them.

Hon. Mr. PATERSON: Then the Government has to guarantee them?

The CHAIRMAN: They guarantee only what they hold in their own reserve; not what you and I hold. We take a risk with American currency. Private traders match their brains against each other, when it is handed back to private enterprise, and not against the government which sits down at a table and changes the value of the currency over night.

Hon. Mr. CRERAR: Using wheat again as an illustration; we take payment for the one million bushels of what is Sterling. We have then, say, one million pounds of sterling, by way of illustration. Quite obviously we cannot pay the transport companies in Canada, nor the producers of wheat in pounds, because they are of no use to them. The Canadian Government then might say, "Well, we have got this one million pounds; we will go in and buy one million pounds worth of rubber from say, Malaya, which is in the sterling area, and we dispose of the one million pounds, and get the equivalent in rubber". But that does not help, as far as Britain is concerned. It is not converted in the real meaning

of the term, because Britain lost the equivalent of what she would get if the one million pounds were converted into dollars. What is the remedy? I suggest that the remedy is for Britain to put herself in a position, if necessary, by lowering the standard of living, working longer hours, and at lower rates of pay, to produce chiefly what she can export to other markets. There is then an obligation on us to accept British goods, and we should not let tariff barriers stand in the way of that.

When we remove the tariff barrier on textiles, for instance, where they are still very high, we help Britain to earn dollars, but in that way we may dislocate some of our existing industries, and that is something from which we shrink. We say we are going to maintain the standard of living; we are going to maintain the scale of wages in the textile industry, and we will maintain the hours of work in the textile industry, and so we have to bar British goods and in that way prevent Britain earning dollars with which to pay for our wheat.

It seems to me a very complicated question, but like most complicated questions, if you reduce them to their principles, you will find it may not be quite so complicated.

Hon. Mr. LAMBERT: Senator Crerar used the illustration of textiles. Do you think, in the last five years, had there been a very low tariff, even on textiles coming into this country from Great Britain, it would have made very much difference in the price at which these textiles were being sold in this country?

My point is this: that the spread between the price and the cost of the textiles, compared with the ones the Canadians make, or any other country makes was so much against the British product in the matter of price, that people could not afford to buy them? So that really the trade factors, and the tariff factors have very little to do with it.

I do not want to elaborate too much on this, but it has been quite noticeable to anyone who has had the opportunity of observing high-priced buying centres like, for instance, Atlantic City, or the West Indian Island of Nassau. There the British goods have sold at prices which were never approached in this country. We know that the policy of Britain in selling their goods has been to sell them to the high-priced centres in order to earn dollars from areas where people do not care much about what they pay, as long as they get the kind of article they want. I think that factor has had a very great deal to do with the falling off of purchases of British goods in this country. In other words, it is up to the British themselves to redress that balance and have a market here.

Hon. Mr. CRERAR: I do not quarrel with that statement at all.

Hon. Mr. LAMBERT: The factor in this question is the quality of the dollars and pounds.

Hon. Mr. CRERAR: The effect it has on the value of the dollar—

Hon. Mr. LAMBERT: Which was inflated, yes.

Hon. Mr. CRERAR: Yes. And attempted to maintain the usual hours of work and the high standard of living, which has kept the price of goods so high that they could not get into the market. I do not think we helped them any in that. They said they would develop high quality goods of a certain character to sell at high prices, and that is what Senator Lambert was referring to.

Hon. Mr. PATERSON: Apropos of spending one million dollars on Peruvian rubber or Malayan rubber; how about the automobiles or the steel filing cabinets which they ship over here? Would that help the situation any? That is to increase trade.

Hon. Mr. CRERAR: Let us assume that they would. The competition with English filing cabinets, and, shall we say, English electrical equipment might make it difficult for similar Canadian industries to meet that competition. We can take the United States, as a good illustration. The other day they received a tender for the building of a big Hydro Electric power plant in a western state from Britain, which was lower than the domestic tenders, but, fearing the effect it might have on some American industry, they turned down the cheaper bid and accepted the higher one.

Hon. Mr. CAMPBELL: We have a witness here who has had a good deal of experience in these matters, and has been associated with the Chamber of Commerce for a number of years, in which these studies have been made, and I would like to hear a little more from him, and ask him one or two questions.

One of the questions is this: if, in the studies the Chamber has made, it feels that the convertibility of sterling is one of the prerequisites of the establishment of free trade?

Mr. CRUIKSHANK: The converting of all monies; not especially sterling?

Hon. Mr. CAMPBELL: Do they grade it? Do they feel that the first effort should be concerned with sterling?

Mr. CRUIKSHANK: Not especially.

Hon. Mr. CAMPBELL: That has never been a topic for discussion?

Mr. CRUIKSHANK: No.

Hon. Mr. CAMPBELL: So it would be a complete trade without the artificial barrier of controlled currency?

Mr. CRUIKSHANK: That is right.

Hon. Mr. CAMPBELL: Have any of the countries expressed an opinion as to when they are likely to be feasible propositions?

The CHAIRMAN: They are very indefinite.

Mr. NELLES: Mr. Chairman, in so far as the programme we suggest on this convertibility is concerned; it is a programme of action. Each country can undertake to go ahead with it. The Committee which drew this up was a Committee of business representatives from fifteen different countries, and they were trying to seek at least some answers to the present problem, and suggested a programme of action which could be laid down and agreed upon.

Hon. Mr. TURGEON: Is Great Britain one of those countries?

Mr. NELLES: Yes.

Hon. Mr. TURGEON: And the United States?

Mr. NELLES: Yes.

Hon. Mr. CAMPBELL: We all agree that is a desirable thing to achieve, but in the discussions in this meeting, what were the chief difficulties in the way of accomplishing the desired end?

Mr. NELLES: The chief difficulty is the policy of national governments. I might add that the directors or members of the Canadian Council have not been at every one of these Committee meetings, so when you asked "Has this been discussed" I do not think we can say "Yes, in all cases". I can assure you the factors concerning the problems have been discussed at one time or another. Some of the meetings are held in Paris, and some in New York, and so unfortunately it has been difficult to always ensure that the Canadian representatives would be there. But whether we are there or not, we usually receive a draft of the material discussed.

Hon. Mr. CRERAR: Mr. Chairman, may I ask the witness which, in his opinion, comes first; the convertibility of currency, or the removal of restrictions on trade?

Mr. CRUIKSHANK: I would say the removal of restrictions on trade.

Hon. Mr. CRERAR: I agree.

Hon. Mr. CAMPBELL: What do you think we could do to remove the restrictions on trade?

Mr. CRUIKSHANK: That matter has been going through my mind. I was in New York last week at a meeting, and I was interested in a discussion held there. The National Association of Manufacturers of the United States is all for lower tariffs; the national section of the International Chamber of Commerce in the United States has found a great deal of propaganda, which is going on in Washington, against the maintenance of the high-tariff structure. I think they acknowledged that Mr. Eisenhower will go along for another year with the old agreement, but it is a question whether that will go through. We all hope it will. I am afraid Canada is in a bad position, if we are still going to be hampered by high tariffs in the United States.

Hon. Mr. EULER: What is your opinion, if President Eisenhower is in favour of removing some of these restrictions, in your opinion, could he carry the Congress with him?

Mr. CRUIKSHANK: There is a big job to be done now. The opinion of men with whom I spoke when I was in New York last, was that the President is very anxious to bring it along in a friendly way. He does not want to start a battle. He is trying by education to get the United States to realize they have not gone along with GATT as they should have done.

Hon. Mr. EULER: But they are going farther, by placing obstacles in the way of dairy production. I understand they want to go farther than that.

Mr. CRUIKSHANK: That is the opinion in the United States.

Hon. Mr. LAMBERT: We will not have it officially settled for another year yet?

Mr. CRUIKSHANK: That is right.

Hon. Mr. LAMBERT: Apart from the political factor, what is your view from an economic point of view, if countries such as Canada and the United States were to arrange a tariff structure which would attempt to reduce them, shall we say, even to the point of very low degree; in other words, to admit British goods into this country: Would that, in your opinion, meet the situation?

Mr. CRUIKSHANK: I do not think I have to express an opinion as a representative of the International Chamber. My personal opinion might be different from the Committee's opinion, or the Chamber's opinion. I would hesitate at a Committee meeting like this to give a definite opinion myself on that problem.

Hon. Mr. LAMBERT: The whole thing seems simple enough. It is the process of inflation in the United Kingdom, and they are complaining now we are not buying enough of their stuff. Could they sell them here at a price which would be acceptable to our people, even if the tariff were low enough to admit their goods?

Mr. CRUIKSHANK: The goods are coming in now—lots of them—

Hon. Mr. LAMBERT: I do not know. You see quite a number of British cars around.

Mr. CRUIKSHANK: They are importing lots of British cars into the United States today.

Hon. Mr. LAMBERT: You will see a variety of them around, but in my humble opinion they are not as good as they were a few years ago.

Mr. CRUIKSHANK: In New York, the automobile show was just filled with British cars.

Hon. Mr. LAMBERT: That does not change the monetary system very completely. In other words, it is your gap between the dollars and pounds, which continues without much variation, despite the fact that a great deal is being imported already.

Hon. Mr. CAMPBELL: Mr. Cruikshank, have you ever had any illustration put before your Committee, which would indicate that the tariff itself is too high against British goods coming into Canada and the United States?

Mr. CRUIKSHANK: I do not think so. Not that I know of.

Hon. Mr. CAMPBELL: Are you free to express an opinion as to whether these tariffs are too high or not?

Mr. CRUIKSHANK: The Canadian tariff against Great Britain?

Hon. Mr. CAMPBELL: Yes.

Mr. CRUIKSHANK: Are they too high?

Hon. Mr. CAMPBELL: Yes.

Mr. CRUIKSHANK: I would think so.

Hon. Mr. CAMPBELL: That is your personal opinion, of course.

Mr. CRUIKSHANK: Yes.

Mr. NELLES: One thing I might add with respect to the Chamber's policy in regard to these special restrictions. It is not only a matter of tariffs. One of the main things the Chamber has been harping on for a number of years is the method by which goods are valued in Customs. In some of the GATT agreements, tariffs may have been equalized in certain cases, but, when the goods appear in the Customs House, the Customs officials classify the goods in such a way as to minimize any reduction of the tariff.

Hon. Mr. EULER: They classify them when the goods come in?

Mr. NELLES: Yes.

Hon. Mr. EULER: And two or three months after the goods have gone into consumption, they demand a higher rate of duty?

Mr. NELLES: Yes.

Hon. Mr. TURGEON: Is that criticism confined to the United States?

Mr. NELLES: Not by any means. I think we have all heard of examples of such situations here. Since the Tariff Act was laid down, the manufacture of goods has changed so radically that many goods which come in can be classified under a dozen different headings.

Mr. CRUIKSHANK: The International Chamber of Commerce has been studying that right along.

The CHAIRMAN: Senator Pirie, you have been studying world trade. Have you any comment to make?

Hon. Mr. PIRIE: I have had a little experience with South American countries, and I find we ran up against a stone wall in getting prices which are legitimate in Canada, and that the Foreign Exchange people are getting into the same market. They will take pounds and Sterling. For instance, the Dutch, the Danes, and the Irish, the Scotchman, and England. They will all get the same commodity in which I am interested, buying it with pounds, except Sterling, and one we try to bring the Sterling back up, and convert it, we are up against a stone wall. We just cannot do it.

The CHAIRMAN: I think that is what every world trader finds today.

Hon. Mr. HUSHION: When you sell them, do you take payment in Sterling or pounds.

Hon. Mr. PIRIE: No. We have not done that.

Hon. Mr. HUSHION: Do you sell them for American dollars?

Hon. Mr. PIRIE: We quote in American dollars.

Hon. Mr. HUSHION: But you get paid in pounds?

Hon. Mr. PIRIE: No; that is the way they want to pay us. In order for us to compete with a country which will accept pounds—well, we just cannot do it. The price is much lower. We have such a high standard of living here that we just cannot get the business on a competitive basis, considering the pound sterling question.

Hon. Mr. HUSHION: I was thinking of Senator Paterson's statement in regard to bringing in automobiles and these filing cabinets. These are commodities we know very well. With our high standard of living, I do know what will happen here. I know our shipping is very much higher than the Greeks or the Italians. How will you compete with them, in regard to Canadian shipping? We have our boats upon which our men are paid three or four times what is paid elsewhere. I think it was even higher than that at one time. If we reduce that, we will have strikes, and every other blessed thing to contend with. I believe we are too high in some cases, and probably adjustments could be made, but we just cannot say we will take a boat for what the Greeks are paying, or what some of the other low-paying countries are spending. I do not see how you can do that.

Hon. Mr. PATERSON: I think that is the whole trouble. I was going to ask the Chairman if I might ask the Witness one question.

The CHAIRMAN: Certainly, Senator Paterson.

Hon. Mr. PATERSON: The Marshall Plan was for the purpose of raising the standard of living; the Colombo Plan for the same reason; the International Bank for the same purpose. Does the International Chamber of Commerce feel these three have accomplished something? It must have been discussed.

Mr. CRUIKSHANK: I think so, yes—most decidedly so. In our brief you will see that we say co-ordinated funds should be set up for world convertibility control, and not these individual controls which have been established by these various bodies.

Hon. Mr. PATERSON: In regard to Senator Hushion's remark; we find that conditions in regard to shipping in Canada are very much worse than the United States, where costs are a good deal higher. Senator Hushion says it would cost us about \$400 to run one of our ten thousand ton ships, whereas it cost the Americans from ten thousand to fifteen thousand dollars.

The CHAIRMAN: Are they subsidized?

Hon. Mr. PATERSON: When they say our shipments must go in American boats, what else can we do? We have to do that to keep our boats afloat.

The CHAIRMAN: It is elementary that nations must have ships.

Hon. Mr. PATERSON: That is economics, Mr. Chairman; it is not free trade.

The CHAIRMAN: It is bad to put the ships of Canada, or any other free nation, out of business.

Hon. Mr. PATERSON: You have a big problem right there, one which you cannot settle in a day.

Hon. Mr. LAMBERT: Mr. Cruikshank said a moment ago that the International Chamber of Commerce was favourable to world control, and some statement that we had to deal with the whole problem of the free world. How far do you feel the present International Bank and monetary fund is a move in the right direction? How far do they fulfill your idea of a central control agency?

Mr. CRUIKSHANK: There was a meeting held in Mexico recently, and our representative came back, and we had a very interesting talk from him on

that theory. He was full of it, and was very enthusiastic about it. But as far as any definite action is concerned, I do not think any has been taken as yet. We are having a world conference in Vienna next month, and thirty Canadians will be going over to that Conference, and that is one of the questions which will come up.

Hon. Mr. LAMBERT: Has your Chamber committed itself to such world control?

Mr. NELLES: The Chamber does definitely approve of such institutions as the Monetary Fund, the World Bank, and so on. We do say, however, that the functions of some of these institutions were not sufficient to cope with the whole problem today; therefore, it is suggested that some means of converting funds be found as a way of getting quicker action.

The Chamber in the past, in our discussions, has found it obvious that the International Monetary Fund has not operated as it was intended to operate. For instance, as we have heard, it has not used its fund of three billion dollars. So we definitely do advocate co-ordinated control of all these things. Some method would have to be established of dealing with your special problems. But all the problems of convertibility are general now and the solutions will have to be co-ordinated.

Hon. Mr. LAMBERT: You want to see some kind of an organization which will certainly attempt to control this world situation?

Mr. NELLES: I would like to see the existing institutions do their jobs better.

Hon. Mr. LAMBERT: How will you do that?

Mr. NELLES: I think it has come to a point where we should have an entirely new approach to the existing institutions to deal with these things. These convertibility funds would be still under the control of national governments, and I think the governments should consult amongst themselves in regard to their use.

Hon. Mr. LAMBERT: That is where they all start; The Monetary Fund, and the International Bank was worked out at Breton Woods by representatives of the national governments, and they were set up for the purpose of handling this very problem, which now most people would say has not been satisfactorily dealt with.

Mr. NELLES: The difficulty in working out a perfect economic world is complicated by the policies of governments, sometimes by national ambitions and the personal ambitions of dictators.

Hon. Mr. PIRIE: Mr. Chairman, I would like to point out an illustrative case. Last fall we tendered on a one million dollar order for Uruguay. The reason they asked this country to tender was because we have a particular commodity they could not buy in certain other countries, and we might have had a little preference from that standpoint.

We received the order, and we were obliged to put up a \$100,000 deposit with this Uruguan government on that perishable article. We had to go into the market to get a certain class of ship that they required, what are known as "Reefer" ships and they even specified the particular line. Just imagine the risk and the hazards involved. They gave you a certain time limit to deliver the goods C.I.F., Uruguay. I think it is one of the worst pieces of business into which a person can possibly enter. I do not know of any other way, if you want the business, that you can get around it. Uruguay will tell you just exactly what you have to do, and if they accept your tender, then you have to go into the market to get the ships. The shipping companies, knowing that, have you "right over the barrel".

Hon. Mr. HUSHION: They would not do that, surely?

Hon. Mr. PIRIE: No? If any means can be devised whereby we can find some relief, or some other method of exporting these goods, it will be welcomed.

They came back after we completed this order, and wanted to buy ten thousand tons more of these perishable goods, and we tendered for it again taking another risk, but they finally came back and said, "We are buying the goods in Denmark, where they will accept pounds". They said, "If you will accept pounds, we will entertain the order", but they finally did buy the goods from Denmark.

Hon. Mr. LAMBERT: Did you lose the \$100,000?

Hon. Mr. PIRIE: No, but it was a terrific risk. I would not want to have it for a steady diet.

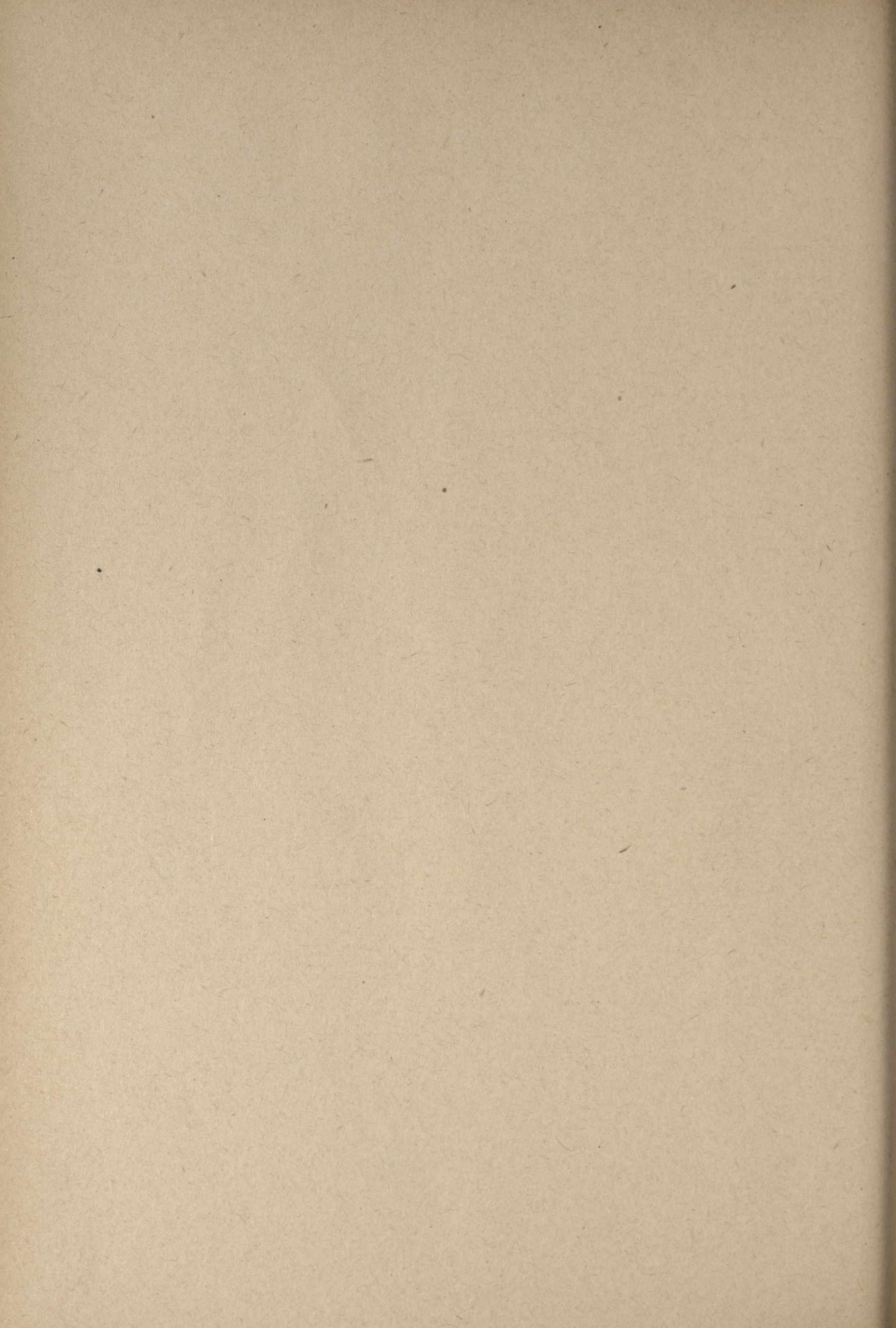
Mr. NELLES: That is another problem which the International Chamber has been working on, and we drew up a report some time ago urging the governments not to force their traders to transport goods in ships of a government's choice. I think there is a copy of that in the hands of the Chairman, but if other honourable senators would like to see it, I would be glad to send copies down.

Hon. Mr. PIRIE: I would be very happy to have it.

Mr. NELLES: I left some copies of the reports we have referred to with the Chairman. They give information in more detail than the brief and, if any further copies are desired, they can be sent from Montreal.

The CHAIRMAN: Are there any other honourable senators who would like to ask any questions? These gentlemen are here. If not, I feel I can speak on behalf of the Committee in saying we have enjoyed having you with us very much. You have given us a great deal of information, and we thank you very kindly for coming here. We appreciate your taking your time to come here and help us on with our work.

Whereupon the Committee adjourned until Thursday, April 23, 1953, at 10.30 o'clock a.m.



1952 - 53

THE SENATE OF CANADA



Proceedings of the
STANDING COMMITTEE ON
CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be
the most practical steps to further implement Article 2
of the North Atlantic Treaty.

No. 4

THURSDAY, APRIL 23, 1953

The Honourable A. N. McLEAN, Chairman

WITNESSES

The Fisheries Council of Canada: Mr. R. G. Smith, Immediate Past President; Mr. P. L. Whitman, Past Director; Mr. Gordon O'Brien, Manager; Mr. J. Norman Hyland, Vice-President; Mr. Roger Hager, Director; Mr. H. W. Welch, Director.

APPENDIX A

Annual Value of Exports of Fisheries Products from Canada to
NATO Countries 1931-1939 and 1946-1952.

CANADIAN TRADE RELATIONS

The Honourable A. N. McLEAN, *Chairman*

The Honourable Senators:

Baird	Duffus	McDonald
Bishop	Euler	McKeen
Blais	Fraser	McLean
Buchanan	Gouin	Nicol
Burchill	*Haig	Paterson
Campbell	Howard	Petten
Crerar	Hushion	Pirie
Daigle	Kinley	*Robertson
Davies	Lambert	Turgeon
Dennis	MacKinnon	Vaillancourt—(30)
Dessureault	MacLennan	

35 Members—(Quorum 7)

*Ex officio member

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Thursday, February 26, 1953:

"That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—"They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(a) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(b) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all".

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry.

L. C. MOYER,
Clerk of the Senate".

MINUTES OF PROCEEDINGS

THURSDAY, April 23, 1953.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 10.30 a.m.

Present: The Honourable Senators McLean, Chairman, Bishop, Campbell, Crerar, Daigle, Davies, Euler, Haig, MacLennan, McDonald and Turgeon.—11.

Consideration of the order of reference of February 26, 1953, was resumed.

The following representatives of the Fisheries Council of Canada were heard:—

Mr. R. G. Smith, Immediate Past President, Halifax, Nova Scotia.

Mr. P. L. Whitman, Past Director, Halifax, Nova Scotia.

Mr. Gordon O'Brien, Manager, Ottawa, Ontario.

Mr. J. Norman Hyland, Vice-President, Vancouver, British Columbia.

Mr. Roger Hager, Director, Vancouver, British Columbia.

Mr. H. W. Welch, Director, Fairhaven, New Brunswick.

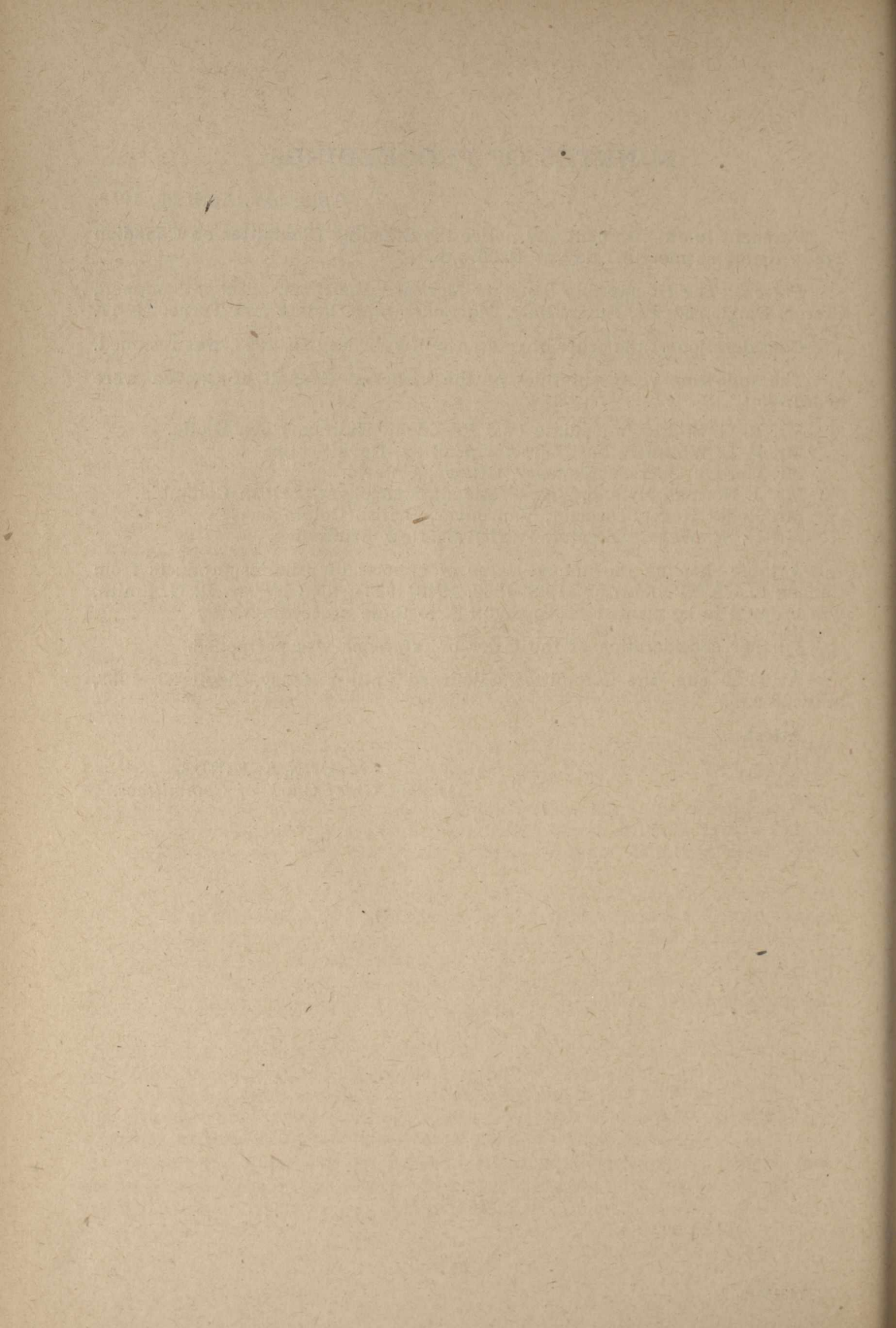
A table showing the annual value of exports of fisheries products from Canada to NATO countries (1931-1939, 1946-1952), filed by Mr. R. G. Smith, was ordered to be printed as Appendix A to these proceedings.

Further consideration of the order of reference was postponed.

At 11.30 a.m. the Committee adjourned until Tuesday, April 28, 1953, at 10.30 a.m.

Attest.

JOHN A. HINDS,
Assistant Chief Clerk of Committees.



MINUTES OF EVIDENCE

THE SENATE

OTTAWA, THURSDAY, April 23, 1953.

The Standing Committee on Canadian Trade Relations which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 10.30 a.m.

Hon. Mr. McLEAN in the Chair.

The CHAIRMAN: Honourable senators, as you know, this is the fourth meeting of our committee since reference was made to us of a resolution introduced in the Senate on February 12 and, after debate, was passed, and referred to us on February 26th.

This morning we are highly honoured to have with us representatives of the Fisheries Council of Canada: Mr. P. L. Whitman, Halifax, Past Director; Mr. W. E. Simpson, Halifax, Director; Mr. Spencer Lake, St. John's, Newfoundland; Mr. J. Norman Hyland, Vancouver, Vice-President; Mr. R. G. Smith, Vancouver, Immediate Past President; Mr. Roger Hager, Vancouver, Director; and Mr. H. W. Welch, Fairhaven, New Brunswick, Director. Whoever the spokesman is to present the brief, we will be very glad to have him come forward, and any others who would like to say anything can follow Mr. Smith.

Hon. Mr. HAIG: Mr. Chairman, before the gentleman starts to speak, I rise, just for myself to apologize to you and to the others if I leave at 11 o'clock. We have another and very important committee of which I happen to be a member, and I promised to be there. I will stay here as long as I can.

The CHAIRMAN: We understand that, Senator Haig.

Mr. P. L. WHITMAN: Honourable Senator McLean, I noticed that in your list there the name of Mr. Francis Millard, the President of the Council, was apparently omitted.

The CHAIRMAN: Yes. Mr. Francis Millard, of Vancouver, B.C., is with us this morning too.

Mr. WHITMAN: Mr. Chairman, honourable senators:

INTRODUCTION

The Fisheries Council of Canada appreciates the opportunity afforded it to appear before this committee. The matter which you are investigating, of encouraging economic collaboration between the countries which are supporting the North Atlantic Treaty, is an important one to Canada's fishing industry.

We do not come before you with specialized knowledge of the basic factors affecting this trade, i.e. exchange and currency problems. We are, however, in a position to discuss with you the marketing of our fishery products in these countries, in a practical way, and shall be glad to try and answer any questions the members of the committee may care to ask. We trust that this brief review of the position of this industry's trade with these various countries may prove of assistance in your study of this question.

On the currency aspects of this trade, may we say, however, that we support the simple economic truth that countries cannot buy from us unless we buy from them.

GENERAL

A discussion of our fishery exports, salted, fresh and frozen, canned and by-products, could be reviewed in several ways—geographical areas of production, by product, or by taking in turn the various export countries with which we are concerned today. We shall endeavour to present the picture to you as clearly as possible, without too many statistics, and by using a combination of the methods just mentioned.

The attached table outlines the history, from 1931 to 1952, of exports of fishery products from Canada, inclusive Newfoundland, to these NATO countries. (See Appendix A). You will note, when you come to examine this table, that it gives exports by dollar value. The most striking fact shown by this table, after making due allowance for the higher prices prevailing in the post-war period, is the increase in exports to the United States and the decrease in exports to the United Kingdom.

BRITISH COLUMBIA

All of the major divisions of the British Columbia fishing industry produce commodities which are items of trade with one or more of the NATO countries. Each group of commodities exhibits particular trading practices and problems and these are outlined as follows.

Canned Salmon

British Columbia's traditional major export market for canned salmon is the British Commonwealth and, in this group, the United Kingdom was the largest export buyer and today is potentially the best natural market for British Columbia's export surplus of canned salmon.

In recent years, sales of canned salmon to the United Kingdom have been effected only under great difficulty and, following each bulk purchase, there has never been any assurance that further purchases would follow in a normal pattern. The recent British decision to purchase \$4,250,000.00 worth of British Columbia salmon is an illustration of this situation.

Canned salmon enjoys a wide and enthusiastic acceptance by the British consumer and it is a frustrating experience for the British Columbia industry to know that there are approximately fifty million consumers in the United Kingdom who because of the dollar exchange problem have only limited and uncertain access to this high grade food product.

Resumption of normal year in and year out trading of canned salmon with the United Kingdom would be a long step toward the balancing of British Columbia's canned salmon economy.

At the present time, British Columbia is able to market limited quantities of canned salmon to Belgium, Holland, France and Italy. The controlling factor in sales to Belgium is our ability to offer at prices which still reach the maximum purchasing power in that country. Solution of this problem rests with the industry itself. The same situation prevails in France and Italy in addition to the remaining import limitations which are in effect in these latter two countries.

The United States is not an historical market for British Columbia canned salmon. For over twenty years the United States administered an *ad valorem* duty of 25 per cent on imports of canned salmon. This duty was reduced to 15 per cent two years ago. It is only under circumstances of extreme shortage in the United States market that Canadian canned salmon producers can export to the United States. Such a situation has occurred within the last six months when an acute shortage of pink salmon in the United States was

partially filled by exports from the Canadian surplus. Under present tariffs, the United States market does not present a market which can be relied upon to absorb any appreciable part of our annual production of canned salmon.

Fresh and Frozen Fish

British Columbia's principal exports of fresh and frozen fish are mainly salmon and halibut and the United States is the principal export buyer. This trade with the United States is of long standing, and apart from market fluctuations from time to time, exhibits a dependable pattern.

In pre-war years, the United Kingdom was an important buyer of frozen salmon and halibut but the continuing dollar problem has erased this outlet completely.

British Columbia's frozen salmon producers have been encouraged by the resumption of purchases by Belgium in recent years and even more recently by token purchases of this commodity by France.

Fish Oil and Fish Meal

Fish oil and fish meal contribute importantly to British Columbia's export trade in fishery products. The flow of trade in fish oil is influenced directly by the world market for fats and oils. Such Northern European countries as Western Germany and Belgium and Holland are traditional buyers of British Columbia herring oil and whale oil.

The United States had also bought substantial quantities of herring oil from British Columbia. Fish oil is freely exportable to the United States on payment of the prevailing import duties.

The United States is a large importer of fish meal which is used as an important ingredient of livestock and poultry feed stuffs. There is a firmly established pattern of trade with the United States on this commodity which enters the United States on a duty free basis.

Normal United States demand invariably disposes of British Columbia's surplus of this product and overseas sales of fish meal are rare and are for small quantities only.

IN THE ATLANTIC AREA

Salt Codfish

The NATO countries which are, or at least were, large buyers of salt codfish from Canada are the United States, Greece, Italy and Portugal. The United States is an important buyer of salt codfish, although the volume has decreased somewhat in recent years.

This situation seems to follow a general pattern during prosperous cycles in countries with a high standard of living. People of European birth who have emigrated to the United States have long been heavy consumers of dried salt codfish. Second and third generations of Europeans, as their standards of living increase, are less inclined to continue using salt fish as a source of protein food, largely because of the extra work involved in preparation as compared to meats and fish in other forms. Salt codfish is not competing with production in the United States. United States import tariffs on this item are not high enough to materially retard sales.

Greece still remains a large importer and consumer of fish, but because of trading arrangements with European countries, some of which involve a barter basis as well as exchange restrictions, it has been impossible to effect any sales of Canadian fish. Italy remains the largest customer in the Mediterranean area for Canadian salt cod fish and every possible step should be taken to ensure the continuity of that trade and its possible enlargement.

Portugal up to 20 to 25 years ago was one of the world's largest importers of salt cod, ranking second only to Spain as a world importer. During this period Newfoundland shipped 400,000 cwts, about half of Portugal's requirements, compared with a mere 30,000 cwts. of 1952 production sold to this country. However, it is believed that Portugal's consumption of fish is as much or greater now than it was two decades ago. Portugal has substantially increased her own fishing fleet operating in the North Atlantic, thereby increasing her national production. Despite this increased national production, substantial quantities of salt cod fish are imported into Portugal from Iceland, Norway and France. The above data clearly indicates that Canadian fish has been practically excluded.

Fresh and frozen fish and shellfish from the Atlantic area of Canada enjoy an expanding market in the United States. This market, serving a population of over 150 million people, which number is increasing at some 2 millions annually, offers to us a greater opportunity than any other market for expanding our sales, especially in view of the low per capita consumption of fish and fishery products in this continent.

The principal species of Atlantic coast fish that we export to this large and important American market are: Fillets, lobsters, swordfish, smelts and halibut.

Groundfish Fillets

It is vital to these branches of the Canadian industry that the U.S.A. market be retained and cultivated. Consequently, our industry views with much concern representations now being made by New England States' interests to their government at Washington with a view to curtailing imports of groundfish fillets from Canada and other countries.

We suggest that our government should watch this situation very closely and if any attempt is made by the United States to impose additional trade restrictions in the form of quotas or higher tariffs upon the import of Canadian groundfish fillets, our government should make a vigorous protest and take all steps within their power to protect our industry.

Hon. Mr. EULER: Mr. Chairman, may I interrupt to ask a question? What are groundfish?

Mr. SMITH: Groundfish are fillets of cod, haddock, rosefish, and so on. The definition is one used by the United States tariff. Those are the fillets that are referred to.

Hon. Mr. EULER: I am wondering why they are called groundfish?

Mr. SMITH: I suppose it is because they are caught on the banks. I really cannot say why they are called groundfish. It is just a description which has grown up without very much reason for it.

Hon. Mr. McDONALD: The distance they are caught from shore does not have very much to do with it.

Mr. SMITH: No.

France offers a very large potential market for frozen groundfish fillets, particularly cod, if and when import and currency restrictions are removed or modified. Very substantial quantities of frozen groundfish fillets are now being imported into France from producing countries other than Canada, principally Iceland and Norway.

Lobsters

Live lobsters and lobster meat find a ready market in the United States. While threats are made from time to time by proposed legislation in the United States which might affect the export of these items, it is most important that this market be retained.

Until the beginning of World War II Great Britain and continental Europe imported the major portion of the Canadian canned lobster pack. During the period of wartime restrictions exports were diverted to the United States and domestic markets, both of which have greatly increased their consumption. In the post war period the United Kingdom resumed imports under a very restricted quota arrangement, and has readily absorbed their small allocation. The European continent has renewed imports of Canadian canned lobster, but, due to currency limitations, the quantities involved are very limited. The opportunity for both the United Kingdom and the continent of Europe to purchase freely canned lobsters and lobster paste would have a stimulating effect on the entire industry in Canada.

In the light of this situation the United States market for canned lobster and lobster paste has become an important outlet for our industry.

Clams, etc.

Canadian Atlantic coast canned fish and shellfish that are sold in the United States market in limited quantities include canned clams, canned chicken haddie and canned kippered snacks. In the case of chicken haddie and kippered snacks, sales could be increased by a lowering of the American import duty. Canned clams, too, are subject to duty when imported into the United States although clams in the shell and clam meat are free of duty.

By-Products

While the United States is the principal export market for Eastern Canada's fish meal production, sales could be made to some NATO countries in Europe were it not for currency restrictions.

INLAND FISHERIES

The inland freshwater fisheries of Canada account for about one-tenth of the marketed value of our fishery products and the United States is the export market. The value of these exports is substantial, running at about \$18 million annually in late years. With these products, where costs of placing the fish on the market are higher than in the case of the deep-sea fishery, market price is a vital factor and, when foods generally decline in value, this fishery is one of the first sections of our industry to feel the effects.

Mr. Chairman, that is a brief review. We are at your pleasure if there is further information desired.

We have a chart which might prove beneficial to honourable senators.

The CHAIRMAN: It will be included in the proceedings as an appendix (See appendix at the end of today's proceedings).

The CHAIRMAN: Are there any questions honourable senators would like to ask?

Hon. Mr. MACLENNAN: You refer several times in your brief to the desirability of retaining the United States fish market. What would you suggest should be done to retain this market? What means would you take to retain the United States market if the United States government sees fit to impose restrictions or quotas or increases in duties?

Hon. Mr. HORNER: Or apply total prohibition as they did in the case of many dairy products.

Hon. Mr. MACLENNAN: Exactly. It seems to me there is nothing you can do unless you take some retaliatory steps.

Mr. SMITH: Mr. Chairman and honourable senators, if such a thing happened it would be a disastrous blow to the Canadian fishing industry.

Hon. Mr. MACLENNAN: I know.

Mr. SMITH: We would find ourselves without a market for 50 to 55 per cent of our fish production, and we would really be in very serious trouble. What steps could be taken by the Government of Canada I do not know. It is a subject, I may say, which has us all very much worried at the present time. Recent moves have struck great fear in our hearts as to what may happen to our United States market.

Hon. Mr. CAMPBELL: Is their own production sufficient to meet their needs?

Mr. SMITH: No, it is not.

Hon. Mr. CAMPBELL: Perhaps that would be a reason why they would not impose too heavy a restriction on your products.

Mr. SMITH: The consumption of fillets in the United States last year was something like 230 million pounds. The imports of fillets from all countries to the United States was in the vicinity of 107 million pounds, of which Canada's share was about 48 million, not quite half. What has caused this situation to arise in the United States is a glutting of the market. There are more fillets in there than the market can absorb, and consequently things are not in a good state. That has brought about the agitation for quotas or restrictions of some sort on the import of fillets into the United States.

Hon. Mr. HORNER: An important factor as far as the United States is concerned is the present plentiful supply of beef. When the price of beef was high you had an advantage in the fishing industry, but now they have plenty of beef, pork and chicken. Incidentally, what hope is there with respect to the South American countries?

Mr. SMITH: Well, the trouble there is you run into currency restrictions and the distributing set-up in those countries is not capable of handling fish products. They do not have the proper refrigeration facilities, and besides that the fish produced in this country come from a high-cost area and I guess they just cannot afford to buy it.

Hon. Mr. CRERAR: I would like to ask Mr. Smith a question arising, I may say, out of my profound ignorance of the whole problem. You spoke of frozen fish. Can the quality of fish that is taken from the water be maintained by quick freezing and keeping it frozen until it reaches the consumer? I know that we are able to buy fish in Winnipeg in nice cellophane covered packages. Can the quality of the fish be maintained for any length of time or does it deteriorate?

Mr. SMITH: Senator Crerar, it does deteriorate with time. It can be maintained up to a certain period. There is a great argument as to what that period might be: somewhere in the vicinity of six to eight months after it has been caught, provided it is strictly fresh on being originally frozen, and kept under proper temperatures all that time.

Hon. Mr. CRERAR: If that is done at the time the fish is taken out of the water, say on the Atlantic Coast, and shipped to Winnipeg and consumed there within two weeks, will the quality be maintained?

Mr. SMITH: Oh yes, I think so.

Hon. Mr. HORNER: I think Senator Crerar has eaten fresh white fish and frozen white fish, and can make a comparison himself. I have eaten fish taken out of a lake in forty below zero weather. This fish was frozen right away and was kept in that state until it reached our camp where it was eaten. I recall at the same time catching another fresh whitefish which I took great pains to protect from freezing. The frozen fish and the unfrozen fish were eaten at the camp, and there is no doubt that the fresh unfrozen fish tasted better. It is much superior.

Mr. SMITH: In my opinion there is no substitute for a real fresh fish just taken from the water.

Hon. Mr. HORNER: I agree.

Hon. Mr. DAVIES: In regard to the shipments of fish products to the United Kingdom, I notice there is a great variation here. Surely it cannot all be due to the dollar situation. I notice, for instance, in your list of the annual value of exports of fisheries from Canada to the NATO countries, 8.80 millions of dollars worth were shipped to the United Kingdom in 1951, 1.31 in 1952 and 1.78 in 1948. There is a great variation there and the dollar situation has not improved very much. What is the reason for that variation?

Mr. SMITH: Well, senator, there is almost a complete prohibition on some exports to the United Kingdom. It must be done on import licence, and I think in the places where you notice an increase there is a special consideration given in those years to certain items that are imported in those years.

Hon. Mr. DAVIES: They gave you special treatment in the years that the larger shipments took place such as 1951, 1950, and 1949.

Mr. SMITH: I would assume so, senator. This year, as you will remember, the United Kingdom has taken from British Columbia some 4,250,000 pounds of canned salmon. This will show for 1953 and will be quite an increase over 1952.

Hon. Mr. CAMPBELL: I should like to ask a question about Portugal. Is it the high cost of production that keeps you out of the Portugal market now?

Mr. SMITH: With your permission I shall ask Mr. Whitman to answer that question. He is in the salt fish business.

The CHAIRMAN: Mr. Whitman, would you come forward, please?

Mr. WHITMAN: It is not a question of the high cost of production. I would say about twenty years ago the government of Portugal decided they were going into the fish business on their own, and their aim was to be self-supporting. That is what they are trying to do, but as stated in the brief they are still buying large quantities of fish from other countries rather than Canada. It is purely a question with respect to the exchange situation.

The CHAIRMAN: They buy in the sterling area, I presume?

Mr. WHITMAN: Yes, from Iceland and Norway.

The CHAIRMAN: And do they come to the Grand Banks?

Mr. WHITMAN: Yes, and that fleet has been increasing considerably particularly since the war, sir.

Hon. Mr. CAMPBELL: What about the West Indies market like Haiti. Have we lost the business there?

Mr. WHITMAN: Not entirely, sir.

Hon. Mr. CAMPBELL: Is there still a big shipment of salt fish from Newfoundland?

Mr. WHITMAN: Yes.

Hon. Mr. CAMPBELL: It is not mentioned in the report. Is it a substantial quantity?

Mr. WHITMAN: No.

Hon. Mr. CAMPBELL: It is a small market?

Mr. WHITMAN: Yes.

Hon. Mr. DAVIES: Is the home market increasing? I suppose it increases every year?

Mr. SMITH: It is increasing but very gradually. The per capita consumption has increased about two pounds in the last five years.

Hon. Mr. EULER: Are you doing anything such as advertising to promote it?

Mr. SMITH: Well, I do not think we are doing enough. However, arising out of our meeting just concluded in Ottawa yesterday we will be doing a great deal more from now on.

Hon. Mr. HORNER: I think you are doing very well. Your efforts pretty well account for the increased consumption of fish in recent years.

Mr. SMITH: Thank you, sir.

Hon. Mr. DAVIES: Is your fish handled by the large chain stores throughout Ontario? I shall tell you why I ask that question. I noticed about a couple of years ago a big fish store in Kingston closed up, and I wondered whether this was because of competition from the big chain stores in that city?

Mr. SMITH: I think the answer to that question is that the large chain stores distributors have taken the place of fish stores as such, and many of the small grocery stores which previously sold fish. The large chain stores are handling an increasing quantity of fish.

Hon. Mr. DAVIES: That is the answer.

Hon. Mr. McDONALD: What, if anything, has been attempted by the Fisheries Council of Canada in trying to establish good relations with the similar, comparable organization in the United States, in the hope that something could be done by yourselves in maintaining the status quo as far as the marketing of fish in the United States is concerned?

Mr. WHITMAN: Honourable Senator McDonald, we have very cordial relations with the National Fisheries Institute of the United States, which is our counterpart in that country. Some of us, just previous to the meeting of the Fisheries Council, attended their meeting in Washington, and at our meeting in Ottawa the Immediate Past President and manager of their organization was here. We have been working in very close collaboration. Of course, there are things on which we do not have complete agreement. One of the things is on the question of imports. They think that too many foreign fish are coming in; and so far we have managed, or perhaps I should say, have helped to try to disperse that feeling; but it is getting more difficult all the time. You probably saw that recently there was an application to the United States Tariff Commission for an increase of duty on groundfish fillets, which we did our best to stop, and got a very favourable decision. There is a rumour now that a new application on this question is to go before the Tariff Commission. Perhaps it is something which I should not mention here, because it is more or less a rumour, but very strenuous efforts are being made now to bring tariff action against Canadian fish. We are at this moment putting in a plan for sales promotion and advertising of filleted fish in the United States along with their own industry, which we hope will have the effect of increasing sales and business to a point where tariff action will not be necessary.

Hon. Mr. DAVIES: Do we import a lot of fresh fish from the United States into Canada? Is it not a fact that there are a lot of fisheries along the United States coast of Lake Ontario shipping fish across the lake in considerable quantities practically every day of the fishing season?

Mr. WHITMAN: I would think there is something to that, sir, but the items that do come in in fairly large quantity are items which we do not produce in this country, such as bulk oysters. We do produce very good shell oysters in Canada—there are none better—but we do import large quantities of bulk oysters from the United States.

Hon. Mr. DAVIES: There are no oysters crossing Lake Ontario, surely?

Mr. WHITMAN: I cannot answer that. Perhaps there is someone in the group who can answer it.

Mr. G. O'BRIEN (*Ottawa*): I think that would be a very minor movement. We are ourselves very large shippers of lake fish; our exports to the United States run around eighteen or nineteen million dollars.

Hon. Mr. DAVIES: But we do import?

Mr. O'BRIEN: Yes, oysters and other varieties we do not produce in Canada.

Hon. Mr. TURGEON: Have you any hope more than you express here for increased trade with the United States in British Columbia canned salmon? Is there any chance of accomplishing anything there?

I shall have to ask one of my British Columbia friends to answer that. Mr. Hyland?

Mr. J. NORMAN HYLAND: Mr. Chairman, as outlined in the brief, we in British Columbia do not regard the United States as a hopeful or prospective market for our canned salmon. The ad valorem duty under normal trading conditions constitutes a very formidable obstacle to trade with that country. It is only under circumstances where there is a very distinct shortage of salmon in the United States and where there is a proper spread between our two price levels that we can achieve access to that market for canned salmon.

Hon. Mr. GERSHAW: I notice you say that British Columbia's principal exports of fresh and frozen fish are mainly salmon and halibut and the United State is the principal export buyer. And you called that "a dependable pattern". Are there any steps that could be taken to bring about the same relations with British Columbia canned salmon as with the other fish products in the province, or do you think it is hopeless?

Mr. HYLAND: Well, I would not term it hopeless, but the United States with its industry in Washington and Oregon, and its very substantial industry in Alaska, over a long period of years has maintained a very high protectionist attitude toward canned salmon, and for many years a 25 per cent ad valorem duty constituted almost a complete barrier, and when you consider that these ad valorem duties are being put on a product with a value today ranging from \$15 a case to \$35 or \$40 a case, applied on a per case basis, the duty is very high, and there is not sufficient difference in the cost of production in British Columbia and the United States producing centres that we can hurdle that part of the barrier.

Hon. Mr. GERSHAW: Is your tariff much higher than the Canadian tariff on the same products of canned salmon?

Mr. HYLAND: No, I believe they are equal.

Hon. Mr. GERSHAW: So our tariff is not any lower?

Mr. HYLAND: No.

Hon. Mr. EULER: Was there anything done at the meetings of GATT to do with that question?

Mr. HYLAND: Yes, when the reduction from 25 per cent to 15 per cent was achieved.

Hon. Mr. EULER: Did it help, though?

Mr. HYLAND: Yes, certainly it helped. For instance, in the trading which is referred to on pink salmon, in the past six months a range of prices in Canada for a case of pink salmon, our present domestic price to the trade is \$15. The range of price in the United States has been from \$18 to \$20. So the Canadian producers could under that range of prices sell in the United States, pay the duty and still be netting not lower than their Canadian sales price. That, of course, absolves them from the risk of dumping action.

Hon. Mr. EULER: They did get some benefit then?

Mr. HYLAND: Yes, although the duty was 10 per cent less than it should have been.

Hon. Mr. CRERAR: At the present rate of increase in the population of the United States, as that population expands and shows every evidence of expanding steadily, what effect is it going to have on the demand in the United States for fisheries products and other products that they will be short of themselves?

Mr. HYLAND: I believe that unquestionably that is going to be the case, and responsible thinking in government circles in the United States concerned with fishery matters, and the trade itself, takes a long term outlook, that they will be depending on imports for a greater percentage of their fish needs.

Hon. Mr. CRERAR: In other words, the consumer in the United States will increase his influence in these matters and get as cheap food as possible.

Mr. HYLAND: Yes. It is our opinion, too, as an industry, that our industry is at the cross-roads of marketing practice. We, admittedly, over the past ten to twelve years have enjoyed relatively simple marketing. There was a ready demand for our product in this country and in the export countries which were available to us. Meat prices, the prices of competitive products—protein foods, were larger, and in many cases these products were very short. In the circumstances, fish commended a ready sale. That is not the case, in general now. This has been the subject of discussion in our meeting at Washington, and here in Ottawa, in the past few days, that we would have to bring an entirely new type of thinking to our product. We must merchandise it more, and we are convinced that with sales promotion and advertising we can increase the per capita consumption of fish as a food; and that is the soundest and best long term approach to our marketing problem.

Hon. Mr. McDONALD: I think, Mr. President, that is very important. I do not wish to be critical, but I want to pass on what I hear from our consumers a great deal, and that is that there seems to be too great a spread between what the fisheries receive and what the consumer has to pay for his product.

Mr. HYLAND: That is a common criticism, and we have been subjected to it from various sources. It is difficult, and in fact I think it is very dangerous to generalize on it, because as you will all appreciate there are many costs to be covered from the time the fisherman takes the fish from his line or net.

Now, the record of fish production and distributing in this country, and, I think in any country, shows that it is not a large margin industry by any means. Anyone touching fish at any level does not make a large margin of earning or profit on it; and it is true that some of our cheaper species of fish expressed in cents per pound do appear unusually low.

Another factor which I believe contributes to this point which you mentioned, is the fact that changes in the basic cost of fish are not quickly or immediately reflected in retail prices. I think the reason for that is that fish is not in active enough demand. Retailers do not look upon it as something they always have to be competitive in in order to obtain their share of the fish business. We know that as soon as beef goes down, retailers announce low prices of beef and pork. There are seasonal fluctuations in the prices of fish. We know that as producers and distributors. But very often a retailer handling fish, cod fillets or haddock fillets won't change his price on haddock fillets all the year around, no matter what happens to his costs. That is not so true on canned salmon particularly. It is an active item in the grocery trade, and it is greatly advertised, and the chain stores merchandise it actively. It is very competitive at the retail level. There were very substantial reductions in canned salmon prices last year, and within a day or two of a new price schedule being announced the retail prices were dropped.

Hon. Mr. McDONALD: I would think that good work could be done in establishing better relations if you could solve just what accounts for the large spread between what the fisherman receives and what the consumer has to pay for the fish.

Mr. HYLAND: Yes, I think that is a good suggestion, and it lies in our responsibility as processors.

Hon. Mr. GERSHAW: Is there much difference in the cost of preparation for sale of canned salmon between British Columbia and North Western States?

Mr. HYLAND: I do not think the actual differences of processing are too great; but in Alaska, particularly, many of the producers there have access to fish which is caught in traps, which admittedly is acknowledged to be a cheaper method of securing raw supplies. It is true that not all the Alaska salmon is caught in that way, but there is sufficient to reduce the average cost slightly below our own. I would think in some species their costs of raw fish would be less than ours.

Hon. Mr. DAIGLE: Could you give us an idea of the difference in quantity between the salmon caught in the United States waters and that caught in Canadian waters?

Mr. HYLAND: I can relate it in terms of cases canned. The average pack of B.C. canned salmon is 1,500,000 cases per year, over the past ten years. There has been a slight improvement in our per year pack. The Alaska pack plus Puget Sound is in the vicinity of four million.

Mr. HAGER: It is closer to five million.

Hon. Mr. DAIGLE: Is that the only packing plant in the United States?

Mr. HYLAND: There is Alaska, Washington and Oregon.

Hon. Mr. DAIGLE: You do not know about the Washington total?

Mr. HYLAND: They are all grouped together.

Hon. Mr. TURGEON: Traps are not used in the Washington-Oregon waters, are they?

Mr. HYLAND: All in Alaska.

Hon. Mr. TURGEON: All in Canadian waters.

Mr. HYLAND: There are four or five traps operating at the southern tip of Vancouver Island; it is only the trap line remaining.

The CHAIRMAN: But traps are legal in British Columbia.

Mr. HYLAND: They are legal but there are no more licences being issued.

Mr. HAGER: Just at the one specific area or one company, and the license is subject to being secured each and every year.

The CHAIRMAN: And other licences applied for are refused.

Mr. HAGER: They haven't been refused yet.

The CHAIRMAN: But if new licences are applied for they will be refused.

Mr. HAGER: That will be up to the government in Ottawa.

Hon. Mr. TURGEON: Would it be of benefit in your opinion if traps were licensed more or less generally?

Mr. HAGER: Very definitely, Senator Turgeon. Alaska puts it all over us on cost of production.

The CHAIRMAN: As an association have you made representations in that connection?

Mr. HAGER: Oh, yes.

Mr. HYLAND: I don't think we have as an association.

Hon. Mr. TURGEON: There was some effort made a few years ago.

Mr. HYLAND: Yes.

Hon. Mr. DAVIES: May I ask a personal question? I note that Great Britain proposes to import \$4,500,000 worth of canned salmon. Where will that canned salmon go? As you know, I spend two or three months every summer in Britain and I always make it a point to ask for Canadian products of various kinds but I find great difficulty in locating them. Does all this fish go to London, for instance?

Mr. HYLAND: No. Admittedly sir, the limited quantity of canned salmon which Britain is able to finance the purchase of is far from adequate to give complete distribution there. They do, I believe, direct it to the industrial areas.

Hon. Mr. DAVIES: Is it bought by the government?

Mr. HYLAND: It is bought by the British Ministry of Food.

Hon. Mr. DAVIES: And is allocated by him?

Mr. HYLAND: And is allocated by him.

Hon. Mr. DAVIES: It is the same situation as that of beef cattle all over rural Wales. None of it is kept up there. It is shipped to other places on the order of the Ministry of Food.

Mr. HYLAND: The same thing happens with respect to fish.

The CHAIRMAN: Have you found that subsidized canned pork has interfered with your salmon sales?

Mr. HYLAND: It is difficult to assess the complete effect of competition of that nature. One of the questions directed to us was, what are we doing as an industry to keep up the rate of consumption for our product? Speaking for the British Columbia Canned Salmon producers, it was our thinking in 1946 that the export prospects for our product were very uncertain, because during the war the domestic market was necessarily neglected, and for some years our entire output was devoted to overseas shipments. Many new Canadian housewives had never been in the habit of using canned salmon in their homes and many others had forgotten about it. We felt that it was imperative as an industry that we embark upon a program to once again place canned salmon in active acceptance in the Canadian market.

The canneries voluntarily assessed themselves so much per case to raise an advertising fund. Over the past four years we have spent, as an industry, \$900,000 in sales and promotional advertising throughout Canada. That sum is in addition to the private label advertising which has been carried on normally by the individual packers. The result of that promotional campaign is evident to us.

It is true, we could have expected and perhaps should have expected some increase in Canadian consumption of canned salmon by reason of our increased population and improved purchasing power and expanding distribution facilities. Nevertheless, we are confident that our efforts have been successful. In the prewar years the average Canadian consumption of canned salmon was from 550,000 to 600,000 cases annually; our current marketing year which ends June 30th should roll up a figure close to 900,000 cases. We have succeeded in almost reversing the former relationship of export trade to domestic trade. It used to be that 65 per cent of our trade was export and 35 per cent domestic; now we are almost at the point of having 65 per cent domestic and 35 per cent export.

Hon. Mr. HORNER: May I ask whether the herring fishermen's strike outlasted the entire season for that fish?

Mr. HYLAND: It did. There was practically no production of herring in British Columbia in the 1952-53 season. Small quantities were taken for dry salting, but they were very small.

Hon. Mr. CERER: I should like to ask a question, Mr. Chairman, which may be outside the sphere of the present witness, but perhaps someone here can answer it. It seems that in the Atlantic coastal fishing areas the fish are moving north to cooler waters. Is there anything to that, and if there is, would it have any effect on the cost of processing these fish for market?

Mr. SMITH: That is true, senator. There has been a movement of fish to cooler waters. Of course, the farther away you have to go to get the fish the more it will cost and the more difficult it is to land the fish in good condition; much more time is added to the length of the trip. As far as the North Atlantic area is concerned, there does seem to be a cycle in progress now in which warmer waters are coming to the Banks and as a consequence there is a movement of some species of fish to the northern banks.

Hon. Mr. BISHOP: Are the trawlers putting the shore fishermen out of business in Nova Scotia and other Maritime provinces? What generally is the effect of trawlers on shore fishermen?

Mr. SMITH: Honourable senator, I do not think the effect of trawlers on shore fishermen has been too detrimental. In any business you must have a continuity of operations in order to develop that business. The shore fisherman with his little boat is a factor, and he must be taken care of, but I don't think we could develop a real fishing industry by restricting mechanical fishing by trawlers and going exclusively to the small boat fishing.

Hon. Mr. MACLENNAN: You do not restrict them.

Mr. SMITH: Trawlers are under licence from the federal government, but there has not been much restriction on the issue of licences.

Hon. Mr. MACLENNAN: The committee seems to be hearing a good deal about British Columbia salmon, and I am getting a little tired of it. Let us hear some talk about Nova Scotia salmon, for example. Is there anybody here who will say that it is easier to dispose of Atlantic salmon than this stuff they catch in British Columbia?

An Hon. MEMBER: No: there is not.

The CHAIRMAN: Mr. Welch, from the Atlantic coast may be able to tell us something about Nova Scotia and New Brunswick fish.

Mr. WELCH: Mr. Chairman and senators, I am afraid the production of salmon on the Atlantic coast is such that it does not make very much difference on the markets of Canada or the world. The production is very, very small. There are only a few cases of salmon canned, and that is for household use more than anything else. It does not go into the commercial market.

Hon. Mr. HORNER: Perhaps it would not come up to the high standard required for export?

Mr. WELCH: I would not say that. Personally, I think it has a better flavour—with all deference to my British Columbia friends—but the quantity is very small and the price is high. It usually goes to Boston and other United States markets, but the price is too high to can.

The CHAIRMAN: That is fresh salmon?

Mr. WELCH: Fresh salmon.

The CHAIRMAN: Would anyone else from the Council like to say something?

Mr. HYLAND: Senator McLean has called to my attention that I did not adequately answer his question about the effect of subsidized canned pork on the sales of our product.

Unquestionably it does have an effect. Any artificial price level which is established in the manner in which canned pork was handled, is bound to have an effect on canned salmon, which is in the same price range. Undoubtedly if canned pork was selling at a price directly related to its cost of production,

we would very likely be in a better competitive retail selling position. We have queried many of our retail store outlets on this question and they did mention that initially, when pork came on the market at a cheaper price, there was a noticeable effect on canned fish sales. We are all hopeful that this year's business will demonstrate that we will maintain or even slightly increase our canned salmon sales in Canada. It is an academic question to ask us what the situation will be—maybe our sales would be much greater if it were not for the competition from canned pork.

The CHAIRMAN: Are there any further questions?

Mr. WELCH: I should like to say a few words on that subject. It is not my desire that I should discuss the canned sardine question. It was left out of the brief because Senator McLean knows more about canned sardines than anybody here. But we in that business feel that subsidized canned pork has had a definite effect upon our sale of canned sardines. Canned sardines is in the lower price class, and canned pork does have a retarding effect on our sales.

Hon. Mr. CRERAR: May I ask whether the witness would suggest, as a solution for the problem, that the government should get out of the canned pork business or get into the fish canning business?

Mr. WELCH: I would suggest that they get out of the canned pork business.

The CHAIRMAN: There is no question about it but that fish and pork come into competition at a certain price level. Here you have one food industry paying its tax, and paying an additional tax to subsidize another industry that is selling in competition with it.

If there are no further questions, I am sure I speak for every member of the committee when I express our appreciation for the very fine brief presented by our witnesses today.

Whereupon the committee adjourned.

APPENDIX A

ANNUAL VALUE OF EXPORTS OF FISHERIES PRODUCTS FROM CANADA (inclusive Newfoundland)
TO NATO COUNTRIES (Except Iceland and Turkey)*
1931-1939 and 1946-1952
(Millions of Dollars)

Year	United States	United Kingdom	Belgium and Luxembourg	Denmark	France	Greece	Italy	Netherlands	Norway	Portugal
1931	12.32	7.02	.24	.14	.86	.40	1.41	.20	.03	1.03
1932	9.22	4.79	.17	.05	.44	.37	.84	.28	.01	.73
1933	9.33	5.04	.19	.07	1.37	.09	1.13	.08	.03	1.01
1934	9.62	6.78	.18	.05	1.08	.23	1.19	.20	.06	1.01
1935	10.89	7.75	.15	.13	.81	.27	1.01	.08	.04	.93
1936	13.47	6.82	.15	.08	.90	.35	.21	.08	.07	1.00
1937	14.56	7.63	.14	.10	.79	.17	.13	.04	.07	.80
1938	13.32	8.10	.10	.03	.71	.44	.58	.40	.09	.53
1939	14.65	9.52	.12	.03	.43	.38	.92	.05	.10	1.03
1946	58.97	15.32	.14	—	1.30	1.34	4.85	.20	†	2.77
1947	51.76	7.20	3.24	†	†	1.36	3.49	.05	.01	3.06
1948	69.93	1.78	2.71	.17	.26	4.51	6.15	.14	—	3.19
1949	66.70	8.21	3.06	.37	—	.10	2.35	.08	—	1.82
1950	80.92	5.05	5.37	.12	.04	.22	2.89	.93	—	4.07
1951	85.17	8.80	2.55	†	.35	.09	3.73	1.04	.23	2.04
1952	87.71	1.31	2.58	†	.53	†	2.67	.74	.12	.79

* Source:—Fisheries Statistics of Canada, Trade of Canada, and Newfoundland Customs Returns. Our annual exports of fisheries products to Iceland and Turkey were nil or negligible throughout the periods covered. Figures are only approximate because data for Newfoundland were available only for fiscal years (ending June 30 from 1931 to 1939, and ending March 31 for years 1946-47 and 1947-48), and these were combined with calendar year data for Canada. Calendar year data for 1948 were obtained from the report of the Newfoundland Fisheries Board.

† less than \$5,000.

Markets and Economics Service, Dept. of Fisheries, Ottawa.
April 13, 1953.

1952 - 53

THE SENATE OF CANADA



Proceedings of the
STANDING COMMITTEE ON
CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be
the most practical steps to further implement Article 2
of the North Atlantic Treaty.

No. 5

TUESDAY, APRIL 28, 1953

The Honourable A. N. McLEAN, Chairman

WITNESSES

Mr. G. K. Sheils, President, Canadian Manufacturers' Association, Inc.
Mr. W. K. Leach, Chairman, Commercial Intelligence Committee, Canadian Manufacturers' Association, Inc.

APPENDIX B

Breakdown of Sales Dollar for 1950 and 1951 Fiscal Years.

CANADIAN TRADE RELATIONS

The Honourable A. N. McLEAN, *Chairman*

The Honourable Senators:

Baird	Duffus	McDonald
Bishop	Euler	McKeen
Blais	Fraser	McLean
Buchanan	Gouin	Nicol
Burchill	*Haig	Paterson
Campbell	Howard	Petten
Crerar	Hushion	Pirie
Daigle	Kinley	*Robertson
Davies	Lambert	Turgeon
Dennis	MacKinnon	Vaillancourt—(30)
Dessureault	MacLennan	

35 Members—(Quorum 7)

*Ex officio member

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Thursday, February 26, 1953:

“That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—“They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them”.

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

- (a) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;
- (b) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby “The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all”.

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry.

L. C. MOYER,
Clerk of the Senate”.

MINUTES OF PROCEEDINGS

TUESDAY, April 28, 1953.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 10:30 a.m.

Present: The Honourable Senators: McLean, Chairman; Bishop, Burchill, Campbell, Crerar, Duffus, Euler, Haig, MacLennan, McDonald, Pirie, Turgeon and Vaillancourt—13.

Consideration of the order of reference of February 26, 1953, was resumed.

The following were heard:

Mr. G. K. Sheils, President, Canadian Manufacturers' Association, Inc.

Mr. W. K. Leach, Chairman, Commercial Intelligence Committee, Canadian Manufacturers' Association, Inc.

A breakdown of the sales dollar for fiscal years 1950 and 1951, filed by Mr. Sheils, was ordered to be printed as Appendix B to these proceedings.

Further consideration of the order of reference was postponed.

At 11:55 a.m. the Committee adjourned until Thursday, April 30, 1953, at 10:30 a.m.

Attest.

JOHN A. HINDS,
Assistant Chief Clerk of Committees.

MINUTES OF PROCEEDINGS

1900

At a meeting of the Board of Directors of the [Company Name] held at the [Location] on the [Date] at [Time] o'clock [P.M./A.M.]

The following members were present: [List of Names]

The following members were absent: [List of Names]

The minutes of the last meeting were read and approved.

It was reported by the [Department Name] that [Summary of Report]

Resolved, That [Resolution Text]

Resolved, That [Resolution Text]

Resolved, That [Resolution Text]

Resolved, That [Resolution Text]

Resolved, That [Resolution Text]

Resolved, That [Resolution Text]

Resolved, That [Resolution Text]

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Tuesday, April 28, 1953.

The Standing Committee on Canadian Trade Relations which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 10:30 a.m.

Hon. Mr. McLEAN in the Chair.

The CHAIRMAN: Honourable senators, I will call the meeting to order. This is the fifth meeting of the Canadian Trade Relations Committee since reference was made to us of a resolution introduced in the Senate on February 12 and, after considerable debate, was passed, and referred to us on February 26. I do not think we need to read the resolution again as I am sure we are all familiar with it.

We are highly honoured this morning to have with us representatives from the Canadian Manufacturers' Association:

Mr. G. K. Sheils, President; Mr. J. D. Ferguson, Vice-President; Mr. Hugh Crombie, Past President; Mr. W. K. Leach, Chairman, Commercial Intelligence Committee; Mr. H. W. Macdonnell, Manager of Legal Department; Mr. T. M. Kerruish, Manager of Commercial Intelligence Department; Mr. Richard Lang, Assistant Manager of Tariff Department; Mr. W. D. H. Frechette, Assistant Manager of Commercial Intelligence Department; Mr. C. Willis George, Ottawa Representative.

I understand that Mr. Sheils, the President of the Association, is to present a brief on behalf of his group, and this will be followed by a discussion. Would you please come forward, Mr. Sheils?

Mr. G. K. SHEILS, President, Canadian Manufacturers' Association: Mr. Chairman and gentlemen, it is an honour and a privilege for the Canadian Manufacturers' Association to appear before your committee, and we trust that the brief which we have to present will add a little to the knowledge which I know you already have on this very worthwhile subject.

Canada's economy is built so largely on world trade that the greatest importance must be attached to the study of efforts to achieve greater freedom in the international exchange of goods and, at the same time, to reduce our dependence upon it and our consequent vulnerability to its fluctuations. Had it not been for the rising volume of our sales abroad, history would certainly not have brought this country to the degree of industrialization and prosperity which it enjoys today as the world's third largest trading nation. The fact that we, a nation with only two-thirds of one per cent of the world's population, have reached the status of the sixth largest industrial producer in the world, is not only a reflection of our wealth of natural resources but also owes much to the human resources of enterprise, energy and foresight which enabled Canadians to develop wisely, produce efficiently, and to sell successfully beyond the bounds of a limited domestic market.

The advantages of exporting the marginal products of industry are well known but, in Canada's case, it has proved necessary in the past and, indeed, for the foreseeable future, that a large proportion of production should be exported in order to enjoy the advantages of most efficient industrial methods. Canada has developed largely on her ability to produce cheaply the bulk products of farms, fisheries, forests, and mines, and the prosperity of our population

in those fields is heavily dependent upon our ability to sell their products in world markets. Our productive capacity has taken tremendous strides in the last few years and we must remember that much, if not most, of the new industrial development today is for the large-scale production of materials which will have to find external markets if the enterprises are to prosper.

Canadians have been quick to concede that imports are not only necessary and desirable but that imports of goods and services are, in fact, the only real payment which we receive for the products we send abroad. On a per capita basis, Canada is the world's largest importer among the principal trading nations. According to the statistics of the International Monetary Fund, which are quoted in terms of the United States dollar, our imports in the past year were about \$309 per capita as compared with \$74 for the United States, \$194 for the United Kingdom, \$105 for France, and \$80 for Western Germany.

The principles enunciated in Article 2 of the North Atlantic Treaty are essentially those which Canada has promoted in relation to all free nations—the furthering of peaceful, friendly, and stable conditions of intercourse between nations; assisting efforts to raise living standards of our less fortunate world neighbors; and seeking the elimination of conflict in international economic policies.

No country has been more co-operative than Canada at the post-war trade conferences held in Geneva, Havana, Annecy and Torquay. Canada maintains no exchange restrictions, nor quota restrictions against the importation of goods from other countries. She has taken her international obligations arising out of her membership in such organizations as GATT very seriously, has not taken advantage of any of the escape clauses, and has lived well within the spirit and letter of her undertakings.

Throughout its eighty-two year history, the Canadian Manufacturers' Association has devoted much of its attention and energy to the promotion of Canada's export trade, guided by Article II of its Constitution which provides "The objects of the Association shall be to promote Canadian industries and to further the interests of Canadian manufacturers and exporters, and to render such services and assistance to the members of the Association and to manufacturers and exporters generally, as the Association shall deem advisable from time to time".

As early as the 1890's, many members had become world travellers and had achieved success with the products of Canadian factories in many overseas countries. The Association established its own agents and correspondents in the capitals of many overseas markets and potential markets throughout the world and in 1900 recommended that the Canadian Government appoint a resident trade commissioner in London. Through the promotion of enlightened trade policies and through direct assistance in solving the trade problems of its members, as well as by educating manufacturers in the techniques of export trade by means of its Export Study Clubs, the Association has worked in sympathy with those who believe that an expanding multilateral trade between nations is in the best interests of world peace and human well-being. Its growth has paralleled the growth of industry and trade, and it is estimated that its nearly 7,000 members, in all the ten provinces of Canada, account for 75 to 80 per cent of Canada's manufacturing production. Of these, about 2,000 are engaged in export trade.

Throughout its life, the Association has enjoyed and contributed to the highest terms of friendship and co-operation with the Department of Trade and Commerce. In line with its stated aims, the Association has endeavoured to place the views and suggestions of manufacturers before the Government as, for example, in a submission made in October, 1943, it recommended the

expansion of Canada's Foreign Trade Service abroad, a program of training to make Canadian Trade Commissioners conversant with modern developments in industry, the establishment of area divisions in Ottawa to study and compile up-to-date trade information on Latin America, the British Empire, etc. In later years, recommendations by the Association have been instrumental in setting up the Export Credits Insurance Corporation and the British West Indies Trade Liberalization Plan.

Canadian manufacturers and exporters are particularly fortunate in being served by a Trade Commissioner Service which is second to none in the world, and the Association has had particularly cordial relationships with these officers who have made CMA offices their headquarters for over fifty years. Co-operation in the matter of foreign fairs and exhibitions, trade missions, goodwill cruises, and similar efforts has extended over a long list of important world events, not least of which has been the development of the Canadian International Trade Fair.

The Canadian Trade Index, which was first published by the Association in 1900 to promote the sale of Canadian manufactured products abroad, now has an annual circulation of 14,000 copies and is distributed to potential buyers the world over by the Trade Commissioner Service. In the years since the war, the Association has received over 1,000 visitors from almost every country with which Canada trades and has assisted them in establishing fruitful connections with Canadian manufacturers and exporters. The Association has been represented at important world trade conferences since the war, including those of the General Agreement on Tariffs and Trade, and such organizations as the Inter-American Council of Commerce and Production of which it is a member. This Council includes representatives of all the Latin American Republics. At the Annual Meeting in 1945 with the co-operation of Mr. Winthrop Aldrich, now U.S. Ambassador to the Court of St. James, the Association took the lead in forming the Canadian Section of the International Chamber of Commerce.

Aided by these efforts, Canadian manufacturers, prior to the war, had built valuable markets for a wide variety of products, including many fully-finished consumer goods, in the United Kingdom and other parts of the British Commonwealth and Empire and many other countries. In the post-war period, unfortunately, other countries have been unable or unwilling to match her record in eliminating barriers to the world-wide interchange of goods. Manufacturers now find many of these overseas markets closed to them, and perhaps irretrievably lost, as a result of import restrictions, quotas and prohibitions, particularly in the sterling area and Western Europe.

Some of the effects of import restrictions and the problems they create are perhaps well illustrated by Canada's own experience in this field.

By the end of the war, Canada had built up a substantial dollar reserve. To ease the problems of the war-torn nations of Europe we embarked on a generous program of foreign credits and gifts which, taken together with the tremendous pent-up demand for consumer and capital goods, rapidly exhausted exchange reserves and forced the adoption in November 1947 of import controls and other measures to conserve foreign exchange. The effect of these restrictions, aided by a renewed influx of capital, mainly from the United States, was that exchange reserves again rose to what were considered safe levels and immediate action was taken for their progressive removal which was finally accomplished in 1950.

A survey conducted by the Association in 1949 revealed general agreement that the import control program had been of benefit to the country. Many new products were being made in Canada for the first time; existing manufacturers of many products received protection from foreign competition more effective than any tariff; purchasing agents in all lines of enterprises

throughout the country had to review their sources of supply and buy Canadian products, where formerly they had used imported ones. Despite these benefits and the knowledge that many of them would disappear when the controls were lifted, the Association recognized that these were temporary measures and that their continuance would be inconsistent with Canada's international obligations. The temptation to ask that import controls be prolonged was very great but instead of advocating this course the Association recommended and approved the Government policy of progressive decontrol when the danger point of exchange reserves had passed.

Canada's conduct in international trade relations, including the rapid abandonment of import controls has been exemplary, but there is little doubt that the lack of desire on the part of other countries to follow her lead is in no small part responsible for the world trade difficulties of to-day.

In many other countries import restrictions have been employed, apart from the necessity of exchange conservation, to build up and protect secondary industry and, in these countries, there appears to be little desire for their removal. In the United States, the tariff structure, import quotas and prohibitions and the involved administration of customs have been designed and used to ensure, in that highly industrialized nation, that American industry is not subjected to serious competition from Canada or from abroad.

The evidence of past years leaves no doubt that further action by Canada to give a larger share of a relatively small domestic market to imports will be totally ineffective in changing these restrictive policies in other countries. Instead, we must look for more positive measures by other countries which will progressively result in greater freedom in the international exchange of goods. The statements issued, following the 1953 Commonwealth Conference, and subsequent talks, cautiously indicate an encouraging change in thinking on these matters, and if their suggestions are carried into action the general problem of world trade may be brought closer to solution. It has been made clear that the proposals envisage the seeking of full participation and co-operation of the countries of Western Europe.

Perhaps it may be said that the effects of these import curbs are being over emphasized since Canadian exports have yearly reached new peaks, but this is to ignore the change which has taken place in the nature and direction of our exports. The ever-increasing demand in the United States for our raw and semi-processed products is of great importance to our basic industries, but, unfortunately, Canadian manufacturers of consumer goods and other fully-finished articles have not found the United States a substitute for markets which they previously enjoyed in the United Kingdom, the British Commonwealth and Empire and in some foreign countries, for these products. It is obvious that the United States, while quite willing to admit Canada's raw materials to her markets, does not show the same willingness to admit a wide range of manufactured goods.

In order to prosper and to provide stable employment, in order to progress towards more efficient production methods and improved products, the manufacturing industry, Canada's largest employer of labour, needs access to ever-widening markets. Such progress is essential if Canadian industry is to avoid a situation where rising costs of production and distribution result in pricing itself out of not only its foreign markets but also the domestic market, and in all policies this must be a major consideration.

The Canadian Manufacturers' Association has the utmost faith in the industrial future of this nation and in the eventual restoration, through international action and amity, of peaceful and prosperous world trading conditions. In the long term, the earnest efforts of governments, international institutions, and private enterprise must be crowned with success, and indeed no one would

contend that the past few years are devoid of achievement. In devising additional means of meeting the ultimate objective, the Association respectfully submits the following considerations:—

(1) Steadfast support should be given to existing international organizations and institutions in their efforts to solve the problems of world trade and finance. The most capable government, business and financial leaders are engaged in these efforts within the existing frame-work for international discussion, and Canada, together with the other nations of the North Atlantic Treaty Organization, should continue to give the utmost co-operation and avoid national policies which may jeopardize their success.

(2) Continuing study should be given to the most effective application of the principle that Canadian materials and resources should be processed as far as possible in this country, and that Canadian exports should comprise the highest possible proportion of "value added by manufacture". This includes more extensive and intensive utilization in Canada of indigenous materials, fuel (especially natural gas) and energy, and the greatest possible economic diversification of industry.

(3) According to a survey conducted by the Association covering the fiscal year 1951, Dominion and Provincial income taxes paid by 733 companies with net sales over \$5 billion amounted to two and one-half times the dividends paid to shareholders (which were themselves subject to income tax). For every dollar that manufacturing makes in net profit, Dominion and Provincial Governments take one dollar in income taxes. Some further relaxation of taxes would encourage modernization of plant and equipment and would go a long way towards improving Canada's competitive position in world trade.

(4) Canada has many industries, both large and small, which have developed under a policy of moderate tariff safeguards. Nevertheless, the Canadian customs tariff is at present a comparatively low tariff with an extensive free list. Under existing conditions, has not Canada gone as far as she can, safely, in giving access to her markets?

(5) Transportation and communication facilities within the country and those which connect its ports with foreign markets should be maintained and extended in such manner as to provide an adequate and reasonable service at reasonable rates. The importance of Canada's transportation policy remaining vital and flexible in all its ramifications, and, at the same time, co-ordinating various transportation media, using each to its best advantage is, we believe, recognized and should be continued.

(6) A positive and progressive immigration policy should be designed to encourage the acquisition of new skills from abroad to assist in the building of a well-balanced industrial economy and to strengthen the domestic market.

(7) The present policy of making Canada better known abroad by all available means should be continued and extended. More emphasis should be placed on manufactured products, expanding industrial and export facilities, newly-found resources and trade policies.

(8) An extension of token import plans would be helpful in re-opening markets of the British Commonwealth and Empire to a limited extent.

(9) Consideration should be given to means of realizing closer trade relations with the British countries of the Caribbean whose economy is, in many ways, complementary to that of Canada.

(10) Programs of aid to under-developed areas such as the Colombo Plan deserve effective support and encouragement.

All of which is respectfully submitted, Mr. Chairman.

The CHAIRMAN: Thank you, very much. We are open for discussion and questions which you would like to ask Mr. Sheils.

Mr. SHEILS: Might I say, Mr. Chairman, that the reason for having this group of experts with me this morning is that on many of these questions I might feel that they could give a better answer than I could, and I would like to feel free to call on them.

The CHAIRMAN: Certainly, sir.

Hon. Mr. McDONALD: Mr. Chairman, I think that the witness has given a very fine submission to the committee, and I think we are greatly indebted to the Canadian Manufacturers' Association.

I should like to ask the witness or some member of the delegation what has been done in working with comparable organizations of other western nations to achieve the ends which you have suggested.

Mr. SHEILS: You are speaking of other associations of manufacturers?

Hon. Mr. McDONALD: Yes, I am.

Mr. SHEILS: Mr. Leach, would you care to answer that question? Mr. Leach is chairman of our commercial intelligence committee.

Mr. W. K. LEACH: Mr. Chairman and gentlemen, I can speak on that question through my experience with the Inter-American Council which is an organization comprising all countries of South, Central and North America. They hold their meetings in different countries. I had the pleasure a year ago of speaking before that group in Houston, Texas. It was sponsored by the National Association of Manufacturers of the United States. Their get-together is for the purpose of exchanging ideas and talking about trade between the different countries. The Canadian Manufacturers Association holds a membership in that organization. This past November they held a meeting in Lima, Peru. I had planned on going, but was unable to do so. Mr. Cathers of the Canadian Manufacturers' Association went down and spoke before that group. We have had many interesting letters from them. I have personally made friends amongst this group, and they seem to take pleasure in writing letters. The purpose is to extend trade throughout all the Americas. If there are any further questions on that point, I shall be glad to go further.

Hon. Mr. EULER: Mr. Chairman, the former speaker dealt with GATT—the general agreement for tariffs and trade. Do you think that venture has been successful? I know you have stated that we ought to continue all such relationships for the purpose of forwarding international trade. You have been following GATT's various meetings, and you have stated that many of the European countries have taken advantage of, I suppose, the escape clauses which have had the result of preventing imports into their country, and also into the United States. In view of all that, do you think that so far as you have gone, GATT has been successful?

Mr. SHEILS: We would be the first, sir, to say that GATT has had a reasonable measure of success. We would not in any way claim they have been entirely successful. Human nature being what it is, I think progress must be slow—

Hon. Mr. EULER: And politics being what they are.

Mr. SHEILS: And possibly some manufacturers being what they are—progress must be made slowly. However, we do feel that a measure of progress has been made. Perhaps Mr. Macdonnell would have something to say on that point.

Mr. MACDONNELL: Mr. Lang has better knowledge of that subject than I.

Hon. Mr. EULER: I note you say that GATT has gone as far as advisable. I am not trying to put words into your mouth with regard to the lowering of tariffs—

Mr. SHEILS: We feel that Canada has set an example to the other nations of the world in the prompt carrying out of promises made at the international meetings. When we have promised to do something we have done it. I am sorry that cannot be said for our neighbour immediately to the south.

Hon. Mr. EULER: By the way, has Congress ever ratified the GATT agreement?

Mr. SHEILS: I understand they have not. Part of the trouble in dealing with their representatives is that government officials attend meetings and make commitments which their government will not endorse when they go home.

Hon. Mr. CRERAR: I think power is given under the President to make these treaties.

Hon. Mr. EULER: But I am talking about GATT.

Hon. Mr. CRERAR: GATT is an outgrowth of the powers given to the President.

Hon. Mr. EULER: Has our parliament ratified that agreement?

The CHAIRMAN: I think we have.

Hon. Mr. EULER: But as I understand it the United States have not?

Mr. SHEILS: I can cite an instance which I think will answer both questions which you have brought up.

One of the principal points raised at GATT was the simplification of the very cumbersome United States customs procedure which operates far more efficiently than any tariff to bar goods going into that country and their customs policy can be changed at a moment's notice on pressure from a certain manufacturer. The American delegates at GATT solemnly promised that that condition would be corrected and that the U.S. customs procedure would be simplified and brought into line with other nations.

Hon. Mr. EULER: That would not require legislative action.

Mr. SHEILS: That has never been done; it has never been placed before the American Congress.

Hon. Mr. EULER: But that would not have to go before Congress. I know, for instance, a Canadian manufactured product can be exported to the United States, and when it reaches the border it is adjudged to be within a certain classification for tariff rating. Then two or three months later a customs official may say that classification was wrong, and the manufacturer owes more duty. That has the effect of curtailing trade with that country. I would think that would be a matter of administration rather than of legislation.

Mr. SHEILS: Two or three months ago the promise was made that the legislative body would correct that situation, but we are still waiting for them to do it.

Hon. Mr. TURGEON: They undertook to change that regulation, did they?

Mr. SHEILS: Yes, sir.

Hon. Mr. TURGEON: A definite undertaking.

Mr. SHEILS: Yes.

Hon. Mr. TURGEON: That would be part of the agreement reached?

Mr. SHEILS: Yes, that was at Geneva.

Another point about which we feel very keenly, and one of the factors inherent in GATT, is the use of embargo or quotas should be restricted to cases

where there is a monetary or an exchange crisis. That has not been the case in the United States. They have applied embargoes where there was no exchange problem.

Hon. Mr. MACLENNAN: In other words, if the Americans do not want to receive manufactured goods from Canada they have ample machinery to keep them out.

Mr. SHEILS: You have put it in a nutshell, sir.

Hon. Mr. EULER: My reason for saying that the correction of that would not necessarily require legislation was this: those restrictions, and obstacles—if you like—to the importation of Canadian goods into the United States are matters of regulation pretty largely, and regulations get altered very often in a certain way by officials rather than under any definite act of law.

Hon. Mr. CRERAR: I think, Mr. Chairman, that the United States tariff is a monstrosity; and their law makes provision for all these regulations. That is, if my understanding of it is correct, their tariff laws define that in certain circumstances certain things must be done, and there is a conflict between not only the present Executive in the United States, but also the previous Executive, with Congress over the application of these laws; and I have no doubt that the representatives of the United States at GATT said, "We will try and get these things changed in the American law", but so far it has not been done; and their tariff law makes provision for these roundabout ways of protection—because that is all it is, reduced to its essentials.

Mr. SHEILS: I think that is right, sir.

Hon. Mr. CRERAR: It gives more authority to a Customs officer than our laws do, so that the Customs officer can place them in different categories, hold them up indefinitely, and so forth.

Hon. Mr. EULER: Under regulations. But who makes the regulations? The law is made by Congress but regulations under the law are not made by the Congress, but by the officials or what we in Canada call the minister. You pass a certain law in Canada, and the minister is given power to make regulations. He may perhaps table them, but he does not have to go to parliament to ratify the regulations.

Hon. Mr. CRERAR: I may be wrong, Mr. Chairman—

Hon. Mr. EULER: We have both been in that position, senator.

Hon. Mr. CRERAR: —but I think it will be found that even the President, with all his power, cannot vary these regulations. That is embedded in their tariff law, beyond his ability to touch; and there have been frequent discussions in the last few years over the need of revising those regulations.

Hon. Mr. EULER: But who makes those regulations?

Hon. Mr. CRERAR: The regulations on that point are really made by Congress.

Hon. Mr. EULER: I don't think so.

Hon. Mr. CRERAR: I think you will find that is so.

Hon. Mr. TURGEON: Coming back to this agreement under which the United States representatives agreed to change the regulations, and so forth: what is the date of the meeting when that agreement was made?

Mr. SHEILS: I believe the first agreement was in 1946.

Hon. Mr. TURGEON: You refer to the last one, in which they definitely agreed to a change?

Mr. SHEILS: That was this meeting with the British representative, Mr. Butler, when the question of freeing trade was discussed, and sterling convertibility, and so forth.

Hon. Mr. TURGEON: Just this spring.

Mr. SHEILS: Just this spring; and at that time the American officers, I believe from the Presidential office, assured the British that this long-deferred simplification would take place this year.

Hon. Mr. TURGEON: Could that be called—I am asking for information—an official undertaking?

Mr. SHEILS: Well, it all depends, sir, whether the officer in the President's office, under their set-up, has the authority to make the statement. He certainly made it.

Hon. Mr. CRERAR: It was a declaration, I think, that the President would try and get these changes effected.

Hon. Mr. TURGEON: That was while Mr. Butler was in Washington?

Mr. SHEILS: Yes, but the original promise was in Geneva in 1946.

Hon. Mr. EULER: Then they went to Havana and Annécý and Torquay.

Mr. SHEILS: Yes, sir.

Hon. Mr. EULER: And the last one was in London; is not that right?

Mr. SHEILS: I am not sure if there was a discussion in London on that or not. Torquay was the last.

Hon. Mr. CRERAR: Would you agree, Mr. Sheils, with the theory that is now becoming somewhat popular throughout the world, that if a country is going to export it must import?

Mr. SHEILS: Yes, sir, we do agree with that.

Hon. Mr. CRERAR: And it follows, then, that barriers in any country to the movement of trade back and forth across these countries are in contradiction of that?

Mr. SHEILS: Yes. I think we have proved that. We Canadians proved that by the amount of stuff we export per capita as compared with any other nation in the world.

Hon. Mr. EULER: Which is the greatest obstacle,—tariffs, or these other methods of restricting imports?

Mr. SHEILS: As regards our dealings with the United States, I would say the invisible barriers are the worst.

Hon. Mr. CRERAR: I agree with that.

Hon. Mr. EULER: The tariffs are high.

Mr. SHEILS: The tariffs are high, but one can figure what one must pay with a tariff. Supposing the tariff is 25 or 30 per cent, you do not try to export unless you can beat them by your efficiency in production and so forth, but the "invisible fellow" is hard to beat.

Hon. Mr. EULER: You meet him at the border?

Mr. SHEILS: Yes. You do not know you have met him until your agent in the United States says, "Where is that shipment you were sending me?" and you find that it is still at Buffalo.

Hon. Mr. CRERAR: I admit it is academic, but if it were possible to reach an arrangement with the United States for twenty-five years for a complete free exchange of the products of either country with the other, would that be a good thing for Canada?

Mr. SHEILS: In my opinion it would not, sir. I think it would completely destroy great segments of the Canadian manufacturing industry, and that we would lose a great deal of our identity and autonomy as a country.

Hon. Mr. CRERAR: Would that be due to the fact that you do not think that Canadian skills are less than American skills, but—

Mr. SHEILS: Not for a moment, sir. We have proof that they are not. But we have to think of this, that with a market of 150 millions, for instance, if you are going to bring out a new refrigerator and you have a tooling cost of fifteen or twenty thousand dollars, you can imagine the impact of that tooling cost on the production of refrigerators for 150 million people as against 15 million people.

Hon. Mr. CRERAR: I would like to follow that up. The Canadian manufacturer would have the assurance of twenty-five years of a market, not of 15 million people but of 170 million people, and he has the advantage of haul to get his merchandise over there,—which the United States fellow has not.

The CHAIRMAN: The distance.

Hon. Mr. CRERAR: The distance, yes. It is an academic question, but do you not think the Canadian manufacturer would have certain advantages over his American competitor, say in the matter of power costs; and so far as transportation is concerned the great bulk of the consuming population of the United States is closer to the manufacturing centres in Ontario and Quebec than British Columbia or Alberta is.

Mr. SHEILS: I still do not think it would be a good thing for Canada, sir.

Hon. Mr. CRERAR: I think you are a little too timid, Mr. Sheils.

Hon. Mr. CAMPBELL: I see another factor that would support your argument in that respect, and that is the differential between the internal taxes applicable to parts that go into the goods in the United States as compared with Canada. I am speaking now of sales and excise taxes.

Mr. SHEILS: That is a factor, unless the previous speaker was visualizing the abolition of all such taxes.

Hon. Mr. CAMPBELL: But those are internal taxes that I am speaking of.

Mr. SHEILS: Yes.

Hon. Mr. CAMPBELL: For instance, take the automobile. A large part of the differential between the price of an automobile in Canada and in the United States is attributable to internal taxes, is that not right?

Mr. SHEILS: Yes.

Hon. Mr. MACLENNAN: Some of it.

Hon. Mr. CAMPBELL: I was asking the witness whether he knew what that amounted to.

Mr. SHEILS: No, I would not like to quote figures on that. I do not know if any of the officers present would like to make a statement on that.

Hon. Mr. EULER: Here is another academic question, and if it is embarrassing to you you do not need to answer it. All these figures would be overcome if there was no political boundary line between the two countries. How about that?

Mr. SHEILS: I would not be in favour of that.

Hon. Mr. EULER: That is what I thought.

Mr. SHEILS: You are suggesting that the United States become our eleventh province, are you?

Hon. Mr. EULER: Or!

Hon. Mr. CAMPBELL: Mr. Sheils, just following up Senator Crerar's question, you are familiar with what happened in the agricultural implement industry where there was a complete elimination of tariff between the two countries?

Mr. SHEILS: I would say reasonably so. I am not in that industry and I do not know as much about it as I would like to.

Hon. Mr. CAMPBELL: That has worked considerably well for Canadian manufacturers.

Mr. SHEILS: I really do not know what the answer is there, but perhaps some of the officers know the story of that better than I do.

Mr. LEACH: I think that has also worked well for the manufacturers in the United States. In our town we have had some manufacturers who have brought their work up from the States to be done there, and we have gained possibly a little in that respect. Other than that, I do not know of anything.

Hon. Mr. TURGEON: I should like to ask one question in relation to Senator Crerar's inquiry about absolute free trade. Would the answer be more easily reached if the population of Canada was doubled?

Mr. SHEILS: I should think that would be a factor towards it. We are advocating increased immigration into Canada at all times for the purpose of building up the home market, and thus giving us a chance to improve our production costs by reason of having a higher home market. I may say that we do not like the fact that such a large percentage of our total export business goes to the United States because of the fickleness, if I may use the word, of their market.

Hon. Mr. CRERAR: Mr. Sheils, notwithstanding all their inconsistencies do you not think the United States is still moving into a position where it must become an importing country?

Mr. SHEILS: Undoubtedly, sir, in the field of raw materials, but they will not be willing to bring in fully-processed goods.

Hon. Mr. CRERAR: Take, for instance, agricultural implements. Thirty years ago when I was barnstorming around the country advocating the abolition of tariffs on agricultural implements, I was regarded as a very dangerous character. Many people thought I should be interned. However, in the course of a few years, practically all the duties were removed from agricultural implements. I think there may be one or two exceptions today. What was the result? I think our agricultural implement industry in Canada today is more firmly based than it has ever been. As a matter of fact, the manufacturers of agricultural implements have demonstrated that they could invade under those conditions the American market. I do not think that Jimmy Duncan would say for a moment that the Massey-Harris Company does not find the American market a valuable one. It is a very valuable market, and my point is that under these conditions I have faith enough in Canadian brains, initiative and ability that they could develop industries in this country which could compete with United States and, indeed, they would have some advantages in doing so.

Mr. SHEILS: I heard, sir, the same Jimmy Duncan advocating very strongly a month or so ago the increase of sales to Latin American markets because he thinks they are better than the United States market.

Hon. Mr. CRERAR: I believe there is in Canada, and with some reason, a pretty widespread feeling that the American market is not a dependable one; that it is subject to the vagaries of Congress. That is true, but I think events are working inevitably against that in the United States, and I think it is a hopeful sign when you get people like the United States Chambers of Commerce, bankers associations, and investment dealers associations coming forward in favour of a liberalization of trade policies.

Mr. SHEILS: Yes, that is a hopeful sign.

Hon. Mr. CRERAR: I do not think there is any question about it, and it is important that we in Canada be perhaps a bit patient with some of these things because I am sure that time is working with us.

Mr. SHEILS: Since 1946 we have had an era of the carrying out of a promise, and I think we have shown reasonable patience.

Hon. Mr. CRERAR: I agree. I think that is to be commended. I only express the hope that you will continue in good works.

Mr. SHEILS: Thank you, sir.

Hon. Mr. Euler: Mr. Sheils, if the Canadian manufacturers were sure of a permanent American market of 150 million or 160 million people, in addition to their own, do you not think that in time, after adapting themselves to the larger market, they would be able to compete just as freely as the manufacturers in any individual states in the United States? The greatest fear in the minds of the Canadian manufacturers would be that in the interim many of them might be ruined.

Mr. SHEILS: I think a lot of them would be.

Hon. Mr. EULER: But if you had a permanency to that market, what would you say then? If a permanent market could be established, do you not think the Canadian manufacturers would be just as competent to cater to a market of 160 millions as would the American manufacturers?

Mr. SHEILS: I think they have proven their competency.

Hon. Mr. EULER: The difficulty would be the period of adjustment.

Mr. SHEILS: There would be a very grave difficulty in that period of adjustment. From past experience it would be a question as to whether we could feel there would not still be an upheaval in this type of restriction with any particular industry.

Hon. Mr. CAMPBELL: Mr. Sheils, in studying these problems have you attempted to classify any industries which might benefit from freedom of trade, and others that might be seriously affected by the elimination of tariffs?

Mr. SHEILS: No, sir.

Hon. Mr. CAMPBELL: Offhand, would you care to express an opinion?

Mr. SHEILS: I would not, sir. In preparing this brief we tried to keep away from that because, as you will appreciate, representing 7,000 manufacturers in almost every conceivable type of industry, we might easily get ourselves into a real schmozzle if we tried to say this industry would benefit and this other industry would not.

Hon. Mr. CAMPBELL: In answer to Senator Euler's inquiry to you, is it not true that if the markets of the United States were opened to Canadian manufacturers, many would not be able to take advantage of these markets without establishing plants in the United States?

Mr. SHEILS: A number would be so situated in Canada that they would have a very long haul.

Hon. Mr. CAMPBELL: Has it not been the practice of many United States companies to establish different manufacturing plants throughout the States so as to be in the heart of the population area?

Mr. SHEILS: Yes.

Hon. Mr. TURGEON: On page 9, item 1 of your brief, you say: "Steadfast support should be given to existing international organizations and institutions in their efforts to solve the problems of world trade and finance." Does that include, for instance, the international monetary program?

Mr. SHEILS: Yes, sir.

Hon. Mr. TURGEON: You are including that?

Mr. SHEILS: Yes, we are continuing to explore every means of support that should be given to those organizations set up, including GATT. We think GATT, although it has not made all the progress that we should like, is doing the best it can for a human organization.

Hon. Mr. MACLENNAN: There is one section here I do not understand, if you will excuse me. You say in your brief, page 10, "For every dollar that manufacturing makes in net profit, dominion and provincial governments take one dollar in income tax." They would have nothing left.

Mr. SHEILS: We should have said, for every dollar we have left after we pay our taxes. If we make two dollars before taxes we pay one to the government and have one left.

Hon. Mr. MACLENNAN: Well, that is not bad.

Mr. SHEILS: We have to pay our shareholders out of that dollar.

Hon. Mr. CRERAR: Would you express an opinion on our taxation, Mr. Sheils, as to what effect it is having on the expansion of industry? In other words, may I put it this way, that industry requires to make savings out of its earnings in order to improve its plants, keep its plants modernized, and to make for more efficient production. Would you say the existing scale of taxation is detrimental to that?

Mr. SHEILS: Yes, sir. I think that was admitted by no less a person than the Minister of Finance a year or so ago, when he said he did not think taxation could be maintained at its then level without detriment to our economy. The point we as manufacturers consider is something like this, sir. Taking an average of all the industries which we represent, it takes \$8,400 to provide a job for one man, that is, in plant and equipment, and that plant and equipment, as you very truly said, must be kept modernized or else production costs go up and we are priced out of our market. That \$8,400 is an average, I might emphasize. I was talking to the general manager of a taxable industry the other day, walking through the rows and rows of machinery and seeing one or two people in two or three or four rows of this mass of setups, I said, "What is the figure in your industry? My idea of an average is \$8,400." He said, "In our industry it is three times that—the cost to provide a job for one man or one woman." So we feel, when governments are thinking of taxation programs which have to do with an industry that that is a figure they would do well to keep in mind.

Hon. Mr. CRERAR: Have you any suggestion as to how the revenue could be replaced.

Mr. SHEILS: No sir, I am not a tax expert.

Hon. Mr. TURGEON: In the revision of tariffs for industry, would you suggest that that class of industry should be kept particularly in mind? That is, do you think the question of cost for the maintenance of employment should be studied from the standpoint of various new industries, or on industries generally.

Mr. SHEILS: I think that tariffs, sir, need to be applied having particular industries in mind. You could not have a flat tariff across the board.

Hon. Mr. MACLENNAN: No, but I meant in working out what tariffs should be, those industries which have a higher cost for employment should receive special attention?

Mr. SHEILS: It would be compensated by every factor in the turning out of goods for production. Taking the taxable industry, percentage of labour costs per output might not be as high as in an industry which costs only \$5,000 to provide the equipment per man.

Hon. Mr. EULER: You said a minute ago, in reply to a question of Senator Crerar's, that the high taxes in Canada do seriously, in your opinion, handicap industry. I think you said that?

Mr. SHEILS: Yes.

Hon. Mr. EULER: Would you care to say that it would be in favour of lowering of taxes and leaving to the government ways and means by which that could be made up, or possibly by a reduction of expenditures? Would you care to give an opinion on that? Would you say taxes should be further reduced on production—the manufacturer's tax?

Mr. SHEILS: I would like to keep out of the separate part of your question, sir. But I do feel that the further reduction of taxation on industry would be beneficial to the economy, in that it would give the manufacturer more money to modernize his plant and equipment and bring it up to date.

Hon. Mr. HAIG: Mr. Sheils, this is a political question. Would you assume, first, to start out, that we need so much money to carry on the government of this country. Would you assume that?

Mr. SHEILS: Right, sir.

Hon. Mr. HAIG: Now, the second thing you have to assume is that he who makes money must ultimately pay the taxes. I do not think we need to argue about that, that income tax is based in that way. I have never heard of any other country that got away from that fact fundamentally. But the corporation tax has always worried me in this way, that if I put my money, if I have any, into investments in manufacturing, in a company, the government taxes the profits on my money first in the company, and they take about 50 per cent, and then they hand me the money and tax me again.

Mr. SHEILS: Right, sir.

Hon. Mr. HAIG: Or if I have my money into things, not manufactured, or not a corporation, such as lending money on city property, lending money on farm lands, they only tax me once on my net profit. Should there not be some change there, should not that basis of taxation be switched off the corporation? Let me point out that in England they do this—and I am subject to correction—I understand that in England the tax corporations give each shareholder a certificate in proportion to the number of shares that he owns, and so when he puts in his own personal tax he gets exemption to the extent that the corporation has already paid him.

Hon. Mr. EULER: We get 20 per cent here now.

Mr. SHEILS: We get 20 per cent here now, yes, after this year. We have been getting 10 per cent, but we get 20 now.

Hon. Mr. EULER: We will get it from the first of the year.

Hon. Mr. CRERAR: Yes, that is right, but that is only 20 per cent. I want 100 per cent. If 20 per cent is a good idea, is not 100 per cent a better idea?

Hon. Mr. CAMPBELL: It is 20 per cent off your tax.

Hon. Mr. CRERAR: But that is not a political question. What do you think? I am assuming that the government needs the money and you are willing to pay it.

Mr. SHEILS: I don't know how far I could go with you reasonably, sir, with regard to 100 per cent, because I do not know what the impact would be on the taxation revenue and what other steps the government might have to take to recover the money. But the manufacturers of the country would certainly be relieved and pleased to see that increase from 10 per cent to 20 per cent because of the very fact that you mentioned, people who have money and who want to put it into our manufacturing industries wonder why they should be taxed twice. It is certainly a step in the right direction, but I would not like to say how many steps in that direction should be taken.

Hon. Mr. HAIG: If 20 per cent is a good thing, why is 100 per cent not better?

Mr. SHEILS: Because I do not know what impact it would have on the revenues and what that would mean by way of other taxation.

Hon. Mr. HAIG: It would have no impact at all. The income taxpayer would have to pay more. I can put my money into mortgages and pay only one tax, but if I put it into industry at the present time, I have to pay double taxation.

Hon. Mr. EULER: Heretofore the government has allowed a 10 per cent credit on your dividend; now it has increased it to 20 per cent, and the government is losing that much.

Hon. Mr. HAIG: But they are catching it on the other side.

Hon. Mr. EULER: What do you mean by that?

Hon. Mr. HAIG: Production is growing all the time, and the same rates and percentages are maintained.

Hon. Mr. CRERAR: If Senator Haig is suggesting, Mr. Chairman, that the corporation income tax should be eliminated and the corresponding burden placed upon personal income taxpayers, I should like to think twice about that suggestion.

Hon. Mr. CAMPBELL: Mr. Sheils, is there not another way in which industry has been helped, and can be helped still further, to increase their plant deficiency and expand their operations, by a more liberal means of depreciation.

Mr. SHEILS: That is definitely a factor.

Hon. Mr. CAMPBELL: And that was a greater factor a few years ago, was it not?

Mr. SHEILS: Yes. I had intended to mention that when I was speaking of the necessity for the manufacturer saving some money to modernize his plant and equipment. The present rate of depreciation applied to the cost of a machine purchased ten years ago will not replace that machine today within the depreciation years. Of course, we cannot say that is the government's fault. The rate was all right when it started. But with the increased cost of that machine over the past ten or fifteen years, the depreciation does not come anywhere near replacing it, and we have to save enough out of profits to replace it.

Hon. Mr. EULER: Would you like to see the rates go back to the depreciation allowed over the war years, when you could write it off in two or three years?

Mr. SHEILS: I would like to see a higher rate of depreciation.

A study is now being made by an association of accountants—and I may say it is not inspired by the Canadian Manufacturers' Association; they are doing it entirely on their own—as to what changes industry must make in its accounting practices in order to compensate for the fact that current depreciation rates applied to the old value of machinery and plant does not leave the manufacturer with anywhere near enough money to replace it today.

Hon. Mr. CRERAR: I think that is self-evident.

Mr. SHEILS: The study is being made by a very authoritative group, and we are looking forward to what they have to say about it.

I should like to amplify my answer of a few minutes ago to Senator Haig. Mr. George, our Ottawa representative, says that he would be pleased to see this 20 per cent go up and up.

Hon. Mr. HAIG: I thought so.

Mr. SHEILS: I am probably the type who likes to take one blessing at a time; I was very happy about the 10 per cent going up to 20 per cent. But I see there are people in my association with more forward vision than I have.

Hon. Mr. TURGEON: Upward vision.

Hon. Mr. CAMPBELL: Assuming that the time will come when the dividend credit will be 70 per cent, would that not result in the shareholder making a greater demand for distribution by the company so as to get benefit for that credit?

Mr. SHEILS: They would be making more money because of the increased exemption. Why should they be asking us to give them more too?

Hon. Mr. CAMPBELL: I think you will find that if they could get dividends tax free, there would be a greater demand from the shareholders for more distribution.

Hon. Mr. HAIG: But they would pay their own taxes on that. For instance, I have some dividends from the Hudson Bay Mining and Smelting Company. Last year practically half of the profits of that company went to the government. Then the company distributed to me my share of the dividends, and I paid the federal government my tax on it.

Hon. Mr. CAMPBELL: But you are suggesting that the credit be increased from 20 per cent to 100 per cent, so that you will not have to pay taxes on dividends.

Hon. Mr. HAIG: The company will pay it.

Hon. Mr. CAMPBELL: Mr. Chairman, we seem to be at cross purposes. The benefits under the present act are that a shareholder may take 20 per cent credit off his total dividends, against taxation.

Hon. Mr. HAIG: Correct.

Hon. Mr. CAMPBELL: If we increase that percentage to 40 or 50 per cent, as will likely be done in the future years, it may have the effect of giving the shareholder his dividend tax-free. Whatever percentage is allowed by way of credit is taken off the tax, and is a direct benefit to the shareholders.

Hon. Mr. HAIG: But suppose I invest \$100,000 in mortgages at 6 per cent. I get my interest income of \$6,000, and I show that in my income tax return and pay tax on it. Whereas, if I had invested that same \$100,000 in, say, Mr. Sheils' company and it earned \$6,000, the dominion government would first take \$3,000 of that \$6,000 by way of corporation tax. I would get my \$3,000, and pay my personal income tax on it. Half of the \$6,000 has been paid out by way of 47 per cent corporation tax; then the balance is taxable in my hands. The 20 per cent credit allowed against the balance of \$3,000 which I receive would give a benefit of \$600, leaving \$2,400 still to be taxed as personal income. So I may end up with something like \$1,500. Whereas, as I have said, had I put the \$100,000 into mortgages, it would have been taxed only once.

Hon. Mr. CAMPBELL: You are after the elimination of double taxation?

Hon. Mr. HAIG: I am arguing for the elimination of double taxation.

Hon. Mr. TURGEON: Is it not possible that if the government made dividends totally exempt from taxation, that as it required money it would have to increase the taxes against the corporation itself? It might happen that what the shareholder would gain on tax-exempt dividends he would lose by reason of reduced dividends the company could afford to pay.

Hon. Mr. EULER: It would not necessarily follow that the government would increase the tax on corporations.

Hon. Mr. TURGEON: They would have to raise it somewhere.

Hon. Mr. McDONALD: They might raise it on personal income, as Senator Crerar said.

Hon. Mr. CRERAR: That was not my suggestion. Senator Haig suggested that.

Hon. Mr. McDONALD: But you brought it out.

Hon. Mr. HAIG: But why should I be able to invest \$100,000 in mortgages, get my \$6,000 income and pay only one tax on it, when if that same amount of money was put into a company it would be taxed twice?

Hon. Mr. BURCHILL: We have to be practical about it: The fact of the matter is that even with the additional taxation, you are getting more money out of the Hudson's Bay than you are from the mortgage on residences.

Hon. Mr. HAIG: No, I am not.

Hon. Mr. CRERAR: I would suggest, Senator Haig, that the inclination of the manufacturing company is to include taxes as an expense, and to adjust his price accordingly.

Hon. Mr. EULER: Added to the cost of the goods.

Hon. Mr. CRERAR: I think the study of corporations would show that until the past year or so they have pretty well maintained their net profits, even in the face of heavy taxation. However, that would not justify the taxation. In my opinion, they are coming to a point where they can no longer do that.

Hon. Mr. HAIG: Certainly they cannot; that is why I raised the point.

Mr. SHEILS: This question of increased cost of machinery and plant makes the problem even more difficult. We should be able to make provision for replacement.

The CHAIRMAN: Are there any further questions?

Hon. Mr. PIRIE: Following up Senator Haig's question: he says if he invests \$100,000 in a mortgage at 6 per cent it gives him a revenue of \$6,000 on which he pays \$2,000 in taxes.

Hon. Mr. HAIG: Provided my tax rate is 50 per cent.

Hon. Mr. PIRIE: Yes; that is an individual tax. If he invests \$100,000 in Smelters they pay the tax of 47 per cent.

Hon. Mr. HAIG: Plus two.

Hon. Mr. PIRIE: But they do not tax you on any capital gain, if you happen to own some of the stock.

Hon. Mr. HAIG: They do not give any credit if I make a loss, either.

Hon. Mr. PRATT: That is true, but you can select your investment. If they make a capital gain you do not pay any tax on it.

Hon. Mr. HAIG: The same thing applies all through, about capital gains. That is another thing altogether.

Hon. Mr. EULER: You are just arguing that double taxation is wrong.

Hon. Mr. HAIG: The tendency of every adviser on investment who has any chance of advisement is to get into things where there is not the double taxation, if he can. Look at bonds. There is no double taxation on the bonds of a company. A company can issue bonds—Aluminum are paying 5¼ per cent. There is taxation. If I buy any stock I pay double taxation.

Hon. Mr. CAMPBELL: They do not have trouble selling the stock.

Hon. Mr. HAIG: But I can buy that on the public market today to yield me 5½ per cent.

Hon. Mr. CRERAR: I think Mr. Sheils has a further statement to make.

Mr. SHEILS: I would like to add to my reply to you some figures one of our officers has given me. The Manufacturers Association made several surveys of what we call a breakdown of the sales dollar between different types of expenses, ending up with the net profit before taxes, and then taxes on dividends and so forth. The first survey we made was in 1948, and it showed a profit of 6.2 cents on the dollar.

Hon. Mr. CRERAR: That is after taxation?

Mr. SHEILS: No, that was before taxation. The following year this figure dropped to 5·8 per cent—that was in 1949. In 1950 profits jumped to 7·1 cents, out of which 3·1 cents were paid in dividends and four cents were retained in the business to rehabilitate the plant and so forth. In 1951 the figure dropped to 5·8 cents, of which 2·3 were paid out in dividends, which again were taxed, and 3·5 cents were ploughed back into the business. So that, as you said, it is becoming increasingly hard to have any money to plough back into business, or have sufficient money to plough back into business. If it is so desired, that computation can be placed on the record. (See Appendix B to these proceedings).

Hon. Mr. CRERAR: I was going to suggest that you have it placed on our record.

Hon. Mr. EULER: Of course that is not the only place where there is double taxation. Take the sales tax. The sales tax is passed on by the manufacturer to, perhaps, the wholesaler, and he adds that on to his costs, and so the tax is paid on that. It is always cumulative; you pay tax on tax.

Mr. SHEILS: The question of the tax and other expenses being passed on by the manufacturer is something I would like to comment on briefly, if I may.

The CHAIRMAN: Yes.

Mr. SHEILS: That is a wonderful theory, and we would all love to do it 100 per cent. But you run into the question of competition from abroad, these days. I would venture to say that if taxes were raised today on textiles or the toy industry they could not pass on one cent to the public, because of the competition from abroad.

Hon. Mr. CRERAR: I quite agree with that. My remark applied to the conditions that existed when there was a general shortage of goods and it was not a question of price, but of getting the goods. But under the competitive conditions which have been steadily returning, that advantage disappears.

Mr. SHEILS: It does not always follow you can pass it on.

The CHAIRMAN: Gentlemen, if there are no more questions I want to thank Mr. Sheils and the gentlemen who are with him for coming here today and for giving us such a fine brief. It will, I am sure, be of use to us. We thank him also for his patience in answering all these questions. We want to thank you, one and all.

Hon. SENATORS: Hear, hear.

The Committee adjourned.

APPENDIX B

CANADIAN MANUFACTURERS' ASSOCIATION
(Incorporated)

1404 Montreal Trust Building,
67 Yonge Street,
Toronto 1, Ontario.

Circular No. 2476

MAY 13, 1952.

SALES DOLLAR BREAKDOWN RESULTS

Dear Sir,

On March 10th, the membership of the CMA was sent circular letter No. 2459 which asked help in an important undertaking—information that would help disprove the myth that industrial profits are excessive.

The response to our questionnaire was gratifying to an extreme. Following are the results of our survey in detail.

Canadian manufacturing industry's profits on each dollar of sales for the year 1951 averaged out at only 5·8 cents, which consisted of 2·3 cents paid out in dividends and 3·5 cents ploughed back into the business. These figures compared with 3·1 cents in dividends and 4 cents retained in the business of the 7·1 cents' profit on 1950's sales dollar.

Force to the figures is supplied by the fact that the CMA members responding to the profit questionnaire employed over 320,000 people in 1950 and over 335,000 in 1951 and had net sales of nearly four billion dollars in 1950 and over five billion dollars in 1951.

These CMA surveys began four years ago and were aimed originally at finding out what the true facts surrounding profits were. The public, according to reputable opinion surveys, has always thought that manufacturing profits were far higher than they actually are. Our findings over a period of four years have proved conclusively that profits were barely half of what the public thought a fair profit should be.

The first survey we did, which covered 1948, showed a profit of 6·2 cents. The following year, it dropped to 5·8 cents. In 1950, a year marked by lower corporate income taxes than last year, profits jumped to 7·1 cents, but last year—even though net sales were a record of five billion for the companies responding to our national questionnaire—taxes of all descriptions were higher and the sales dollar profit dropped back to 5·8 cents, the same as it was in 1949.

Further figures from the survey showed that the average number of shareholders over the two fiscal years of the companies replying to the questionnaire was 264,728 in 1950 and 271,474 in 1951.

Total investments of the companies in question amounted to \$2,592,658,000 in 1950 and \$2,827,729,000 in 1951.

Federal and provincial taxes on manufacturing income in 1950 were 4·9 cents out of each sales dollar, just 2·2 cents less than what the stockholders and the business itself received for the whole year's operations. Taxes in 1951 were not only higher but actually matched the profit of 5·8 cents in each dollar of goods sold. In other words, in 1951, for every cent industry made, the government took a cent in taxes.

We were criticized in some quarters in the past on the grounds that the accepted method of establishing a profit figure was on the basis of net worth. That question is open to discussion, but what we are trying to show is quite simple—the exact number of cents' profit the manufacturer makes on his sales dollar, and how little the profit affects prices.

On the back of this page is the complete breakdown of our survey of the manufacturers' sales dollar for the years 1950 and 1951.

Yours faithfully,

D. P. KEOGH,
Manager, Education Department.

J. T. STIRRETT,
General Manager.

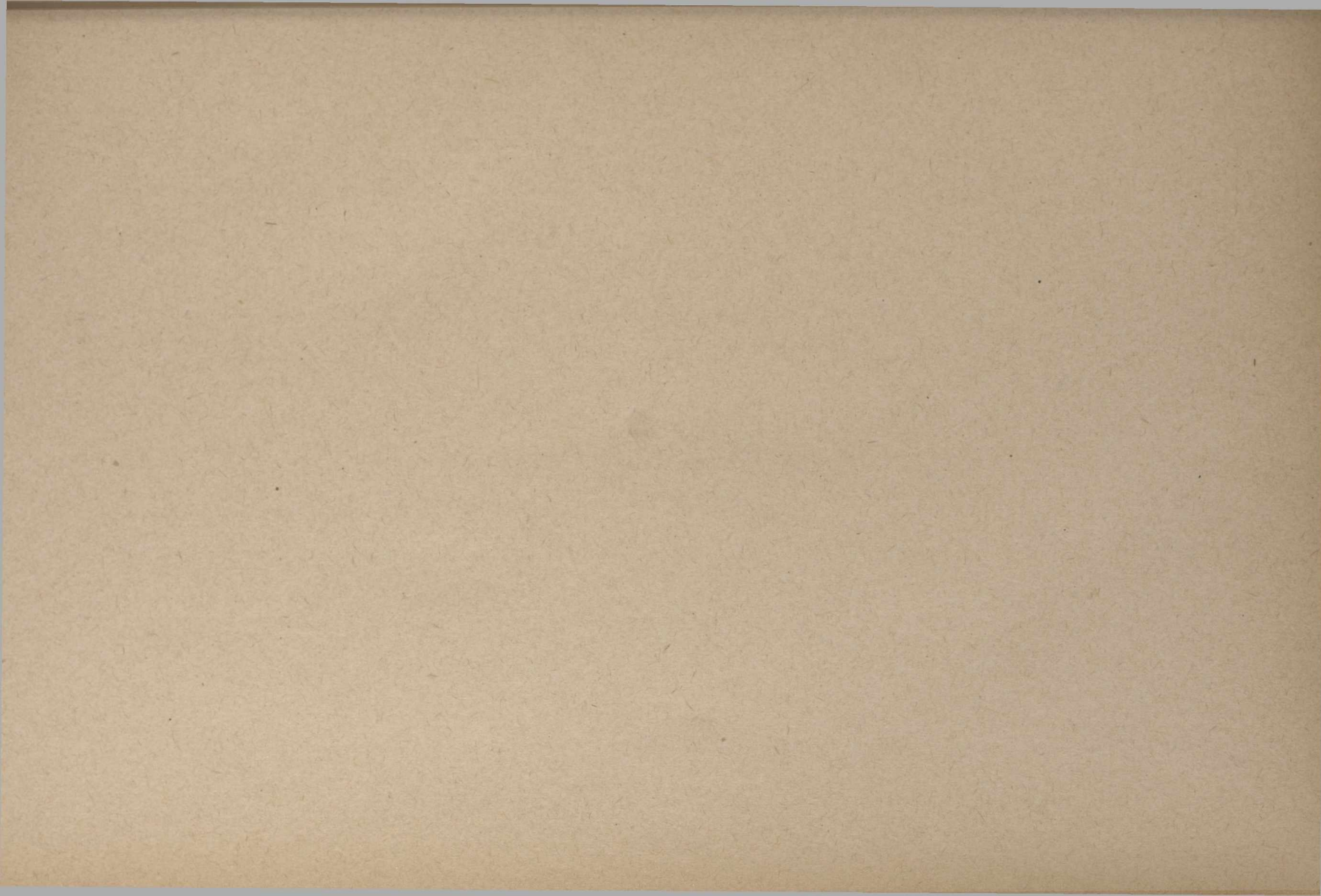
W. E. WEAVER,
Chairman, Education Committee.

CANADIAN MANUFACTURERS' ASSOCIATION

EDUCATION DEPARTMENT

Results of Questionnaire on Breakdown of Sales Dollar for 1950 and 1951 Fiscal Years.

	1950		1951	
	\$	%	\$	%
1. Net sales (that is, gross sales, less returns and allowances).....	3,918,609,000	98.7	5,015,578,000	99.0
2. Other income.....	51,162,000	1.3	53,004,000	1.0
TOTAL.....	3,969,771,000	100.0	5,068,582,000	100.0
3. Wages and salaries (all wages and salaries including management salaries, directors' fees, payments to employees for holidays and in connection with profit sharing or production incentive plans, unless such payments are distributed only upon retirement of employee or some similar basis, in which case they are to be included in 4.).....	871,687,000	22.0	1,114,230,000	22.0
4. Employee benefits (payments to pension plans, group life, sickness or hospitalization insurance, workmen's compensation, unemployment insurance, medical services, cafeterias, welfare funds, 25-year clubs, etc.).....	50,189,000	1.3	64,396,000	1.3
5. Materials (including raw materials, finished and semi-finished parts, materials purchased for resale, materials consumed in processing or assembly operations, and packaging and shipping materials; but not including shop and factory supplies to be included in 7.).....	1,838,024,000	46.3	2,378,031,000	46.9
6. Excise and sales taxes (included in 1 above, remitted or to be remitted to Dominion Government).....	116,476,000	2.9	176,237,000	3.5
7. Other expenses (including shop and factory supplies, power, water, municipal taxes, maintenance, repairs to buildings, machinery and equipment (not including salaries and wages or employee benefits included in 4 above), office, administrative and selling expenses not included above, including charitable donations and interest expense).....	488,733,000	12.3	587,946,000	11.6
8. Depreciation.....	126,312,000	3.2	156,122,000	3.1
9. Taxes on income (Dominion and Provincial taxes on income).....	194,344,000	4.9	297,675,000	5.8
10. Dividends (dividends declared on preference and common shares).....	123,119,000	3.1	115,811,000	2.3
11. Retained in the business (that amount of the year's income not paid out in dividends)....	160,887,000	4.0	178,134,000	3.5
TOTAL.....	3,969,771,000	100.0	5,068,582,000	100.0
12. Number of employees (average over 12 month period of fiscal year).....	320,361	335,560
13. Number of shareholders (average over 12 month period of fiscal year.).....	264,728	271,474
14. Total investments (total assets less actual liabilities other than funded or long-term indebtedness).....	2,592,658,000	2,827,729,000



1952 - 53

THE SENATE OF CANADA



Proceedings of the

STANDING COMMITTEE ON

CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be
the most practical steps to further implement Article 2
of the North Atlantic Treaty.

No. 6

THURSDAY, APRIL 30, 1953

The Honourable A. N. McLEAN, Chairman

WITNESSES:

The Canadian Chamber of Commerce:

- Mr. Edward C. Wood, Chairman, Executive Council.
- Mr. A. Maxwell Henderson, Chairman of Foreign Trade Committee.
- Mr. G. K. Blair, member of Foreign Trade Committee.
- Mr. Morgan Reid, member of Foreign Trade Committee.
- Mr. W. J. Sheridan, Executive Secretary.

The Trades and Labour Congress of Canada:

- Mr. P. R. Bengough, President.
- Mr. L. E. Wismer, Director of Public Relations and Research.

CANADIAN TRADE RELATIONS

The Honourable A. N. McLEAN, *Chairman*

The Honourable Senators:

Baird	Duffus	McDonald
Bishop	Euler	McKeen
Blais	Fraser	McLean
Buchanan	Gouin	Nicol
Burchill	*Haig	Paterson
Campbell	Howard	Petten
Crerar	Hushion	Pirie
Daigle	Kinley	*Robertson
Davies	Lambert	Turgeon
Dennis	MacKinnon	Vaillancourt—(30)
Dessureault	MacLennan	

35 Members—(Quorum 7)

*Ex officio member.

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Thursday, February 26, 1953:

"That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—"They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(a) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(b) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all".

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry.

L. C. MOYER,
Clerk of the Senate."

MINUTES OF PROCEEDINGS

THURSDAY, April 30, 1953.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 10.30 a.m.

Present: The Honourable Senators, McLean, Chairman; Bishop, Burchill, Campbell, Crear, Duffus, Euler, Gouin, Haig, Lambert, MacLennan, McDonald, Paterson, Pirie and Turgeon.—15.

Consideration of the order of reference of February 26, 1953, was resumed.

The following representatives from the Canadian Chamber of Commerce were heard:—

Mr. Edward C. Wood, Chairman, Executive Council.

Mr. A. Maxwell Henderson, Chairman of Foreign Trade Committee.

Mr. G. K. Blair, member of Foreign Trade Committee.

Mr. Morgan Reid, member of Foreign Trade Committee.

Mr. W. J. Sheridan, Executive Secretary.

The following representatives from the Trades and Labour Congress of Canada were heard:—

Mr. P. R. Bengough, President.

Mr. L. E. Wismer, Director of Public Relations and Research.

Further consideration of the order of reference was postponed.

At 12.40 p.m. the Committee adjourned until Wednesday, May 6, 1953, at 10.30 a.m.

Attest.

JOHN A. HINDS,
Assistant Chief Clerk of Committees.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, THURSDAY, April 30, 1953.

The Standing Committee on Canadian Trade Relations which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 10.30 a.m.

Hon. Mr. McLEAN in the Chair.

The CHAIRMAN: Honourable members, this is the sixth meeting of the Canadian Trade Relations Committee since reference was made to us of a resolution introduced in the Senate on February 12 and, after considerable debate, was referred to this committee on February 26. I think everyone in the room is familiar with the resolution, so there will be no need for me to read it.

We are highly honoured this morning to have two distinguished delegations before us, the Canadian Chamber of Commerce, and the Trades and Labour Council of Canada. We will hear from the Canadian Chamber of Commerce delegation first. I would ask Mr. E. C. Wood, Chairman, Executive Council, Canadian Chamber of Commerce, to come forward and introduce his delegation.

Mr. WOOD: Mr. Chairman, and honourable senators, as Chairman of the Executive Council of the Canadian Chamber of Commerce, I would like to begin by expressing on behalf of the council the council's deep appreciation to you for receiving this delegation and members of the chamber's foreign trade committee.

For the record, I would like to state that the Canadian Chamber of Commerce is composed of close to 700 Board of Trade and Chamber of Commerce members in all ten provinces, representing all types of business, large and small, retailers, wholesalers, manufacturers and bankers.

Before introducing the members of the delegation, with your permission I would like to highlight the chamber's policy on international trade relations, which also was passed at the last annual meeting of the chamber in October of last year, voted on by the membership as a whole: Canada stands established today as one of the leading trade nations of the world. Her external trade affects the income of every Canadian citizen and accordingly, the promotion of her trade relations with the other countries of the world must necessarily be a major point in any national program for maintaining and increasing Canadian prosperity.

Experience with governmental trade restrictions and state trading since the end of World War II indicates clearly that international trade, like domestic trade, is best conducted when it is left in the hands of those most experienced in and closest to the business of trade—the businessmen themselves. Government quotas, restrictions and State ventures into the trading field can never substitute for the free and natural growth of trade developed by private traders whose enterprise and initiative are essential to the building of a vigorous Canadian economy. While recognizing exceptions which may be required during war or during a period of defence preparation, the Canadian Chamber

of Commerce urges the Government to do everything possible to bring about the removal of restrictive barriers to international trade and to discourage the practice of state trading.

The Chamber urges continued governmental and private efforts to promote a return of multilateral trade among nations, to allow a free flow of capital throughout the world, and to work towards the free convertibility of currencies.

The Chamber recognizes that if Canada is to enjoy a thriving and expanding export trade she must import goods and services from the countries to which she exports and, therefore, urges that every facility be extended by the Government to maintain a free flow of commerce in both directions. While the flow of imports into Canada has reached substantial proportions during the past years, from both the dollar and the sterling areas, the Chamber is concerned with the increasing tariff, currency and quantitative restrictions imposed against Canadian goods to the point where a wide range of Canadian commodities at the present time is not admitted entry to many countries.

Canada and the Sterling Area

The Chamber believes that Commonwealth business relations can best be promoted by working towards the objectives of multilateral trade, the free flow of capital and the convertibility of currencies among the respective members of the Commonwealth.

It is with particular regret that the Chamber notes the continued existence of trade, currency and quantitative restrictions which limit Canada's trade with the sterling area. It strongly urges that all possible ways and means be explored by all members of the Commonwealth to ease these restrictions to the minimum consistent with the dollar difficulties still faced by the United Kingdom and the sterling area.

The Chamber is gratified to note that the governments of the Commonwealth are convening an economic conference in November 1952 at which time it is understood that the foregoing problems will be investigated. It urges that the Canadian Government take all possible steps to encourage a freer exchange of goods between Canada and the sterling area.

Further comments on the policy of Canada and the United States follow, but Mr. Henderson pretty well covers that in his brief. This policy which I have just highlighted is the background against which the committee's brief is being presented to you gentlemen today.

It is now my pleasure to introduce to you the members of the Chamber's delegation: Mr. A. M. Henderson, Chairman of the Foreign Trade Committee of the Chamber of Commerce. Mr. Henderson will present the brief and act as the chief witness. Mr. G. K. Blair, of the Massey-Harris Company. Mr. Morgan Reid, Assistant Vice-President of Simpson-Sears. Mr. W. J. Sheridan, Secretary of the Canadian Chamber of Commerce, and Mr. E. J. Little, Secretary of the Foreign Trade Committee.

After Mr. Henderson has presented his brief, if there are any questions you wish to direct to him he will, I am sure, be pleased as best he can to answer them. With your permission, sir, I would like to call upon Mr. Blair, Mr. Reid and Mr. Sheridan to assist him.

The CHAIRMAN: Certainly.

Mr. WOOD: Thank you, very much.

Hon. Mr. EULER: May we ask this witness any questions?

The CHAIRMAN: Perhaps we had better hear the brief first.

Mr. WOOD: We will be pleased to do whatever you say.

Hon. Mr. EULER: Because it pretty well goes to the heart of things. I am referring to what he said, "Government quotas, restrictions and State ventures into the trading field". They are apparently opposed to those things, which I am myself. Does he go so far as to suggest the removal of tariffs, or how far should they go?

Mr. WOOD: No sir, not in any specific case. In this particular respect, the policy is dealing, I think, in broad principles.

Hon. Mr. EULER: Your remarks are not directed to tariff restrictions.

Mr. WOOD: Not as such, in any particular case.

Hon. Mr. HAIG: They are directed mostly to quotas.

Mr. WOOD: Quotas and quantitative restrictions. I think Canada has done pretty well in connection with the reduction of her tariffs. We feel that some of the tariffs of the NATO countries are higher than they should be against Canadian goods as compared with Canadian tariffs against their products.

Hon. Mr. EULER: You have said that you are in favour, as we all are, of promotion of trade between countries; that we must buy and sell. Do you not think that the matter of tariffs enters into that question?

Mr. WOOD: Definitely sir.

The CHAIRMAN: I shall now introduce Mr. Maxwell Henderson, Chairman of the Foreign Trade Committee of The Canadian Chamber of Commerce.

Hon. Mr. HAIG: Mr. Chairman, I always like to know what is the witness' occupation.

The CHAIRMAN: Mr. Henderson is Secretary-Treasurer of Distiller's Corporation Seagrams, Montreal.

Hon. Mr. HAIG: His commodity, I know, is usually bought without much advertising.

Mr. MAXWELL HENDERSON: Hon. Chairman, Hon. Senators and members of the Senate Committee on Canadian Trade Relations:

May I say at the outset how much we appreciate your invitation to appear before this Committee today to present the views of The Canadian Chamber of Commerce on the vital subject of economic relations between the member nations of the North Atlantic Treaty Organization. (Attached as an appendix to this brief is the official statement of policy The Canadian Chamber of Commerce on the subject of International Trade Relations).

The Canadian Chamber of Commerce commends your initiative in this important task. We wholeheartedly support your efforts to study the fundamentals of our trade difficulties, particularly your desire to hear the views of businessmen concerned with the very real business of trading from day to day.

This brief is presented by the Foreign Trade Committee of The Canadian Chamber of Commerce. This is a national standing committee of the Chamber and this brief reflects the views of the membership of this Committee across Canada at this time.

Canada's International Trade Relations are of vital importance to the economy of our country. Her external trade affects the standard of living of every Canadian citizen. Exports are and always have been the foundation on which Canada's high standard of living is based. We have tremendous resources of mine, forest, farm and fisheries; we have a great productive capacity and we are skilled in mass production techniques. But with a population of less than 15 million people who cannot consume all we produce. If we are to keep our economy strong and our people employed we must export our surplus production.

But foreign trade cannot exist on a one-way movement of goods. The Canadian Chamber of Commerce has dealt with this axiom in its policy pronouncement. If Canada is to enjoy an expanding international trade she must

import more goods and services as a means of payment, and every facility must be extended by the Government at all times to maintain a flow of commerce in both directions. Our exports in 1952 exceeded \$4,350 millions, being mainly pulp and paper, wheat, raw materials and animal products. The value of our imports for 1952 themselves exceed \$4,000 millions, being mainly iron and steel products, non-metallic minerals, vegetable products, textiles and chemicals. Canada's volume of two-way trade places her among the great trading nations of the world. She has replaced France today in third position after the United States and Great Britain.

Canada's exports in recent years have, however, been largely primary and semi-manufactured products. The United States and the free markets of Latin America continue to take the largest proportion. In the sterling area exports to the United Kingdom have been largely primary products shipped by Canadian Government agencies to the British Government, in other words, through the medium of state trading. The growth of trade, currency and quantitative restrictions, particularly in the sterling area, has amounted almost to a prohibition of the export of a vast range of Canadian manufactured goods to the sterling area, the widest trading area in the world. The Canadian Chamber of Commerce, in its declared policy on International Trade Relations, feels strongly that continued governmental and private efforts must be made through all channels to promote a return to multilateral trade, a free flow of capital throughout the world and free convertibility of currencies. Experience with governmental trade restrictions and state trading since the end of World War II indicates clearly that international trade, like domestic trade, is best conducted when it is left in the hands of those most experienced in and closest to the business of trade—the businessmen themselves. Government quotas, restrictions and ventures into trading can never substitute for the full and natural growth of trade developed by private traders. Such restrictions increase the cost of imports to a country because they force the importing country to buy its goods from less attractive and usually high cost sources.

This is a critical year for Canada's foreign trade. While there has been an encouraging increase in the gold and dollar holdings of the sterling area, the balance of payments problem in most non-dollar countries is a long way from solution. Chancellor R. A. Butler of the United Kingdom has already announced that no solution is in sight this year. The British government's economic survey for 1953, published on March 30th last, emphasizes that British living standards can only be maintained by more production and more exports. In place of a deficit of 400 million pounds in 1951, the United Kingdom produced a surplus of one hundred and seventy million pounds in 1952, excluding one hundred and twenty-one million pounds of defence aid. It is estimated that to meet overseas commitments in 1953, Britain must earn a surplus of three hundred to three hundred and fifty million pounds. The gold reserves of the sterling area, now at a level of \$2,000 million are still not adequate for comfort or safety.

Dollars available to the sterling area for direct United States aid will be materially less in 1953-54. In the absence of a solution which, as already stated, Mr. Butler has said is not in sight this year, Canada must always run the risk of having its overseas trade reduced still further not only by further government quotas and restrictions but also by the development of local industries within the sterling area not always economic to replace goods at present purchased from dollar sources.

This is a year of great importance in terms of Canada's trade relationship with the United States. The United States Congress must deal with the American Reciprocal Trade Agreements Act which lapses in mid-June. The outcome of President Eisenhower's recommendation to Congress that this legislation be extended and studied is vital to all countries trading with the United States, particularly Canada. It will be appreciated that the value of

the extension of this Act in its present form is at best limited inasmuch as a very large proportion of the concessions possible under the existing Act have already been made. The President has also asked the Congress to pass the Customs Simplification Act, enactment of which has been sought for a long time. The stand taken by important sections of American business opinion on the need for this action is particularly encouraging to all countries trading with the United States. Its importance has been stressed by the Canadian Chamber of Commerce ever since the measure was first introduced.

A second event of vital importance to Canada is the expected meeting later this year of the countries subscribing to the General Agreement on Tariffs and Trade (GATT). The tariff agreements signed at Torquay in 1950-51 run for a period of three years and are, therefore, due for renewal this year or early in 1954. It will, of course, be recognized that GATT has resulted in some reduction of trade barriers to Canada's benefit. At the same time it has established a code of conduct in a field where no such principles were recognized before. However, experience with GATT has been to some extent disappointing in Canada. When she herself has striven at all times to maintain the promised tariff concessions both in letter and spirit, several of the other subscribers, including the United States, have violated and continue to violate their obligations thereunder. Further, other of the subscribers, while adhering to the letter of GATT, continue to maintain restrictions not justified by their balance of payments position today. To-day's uncertainties in regard to international economic policies of nations may furnish an explanation for this attitude. The importance to the international trade of the free nations of earnest development of GATT cannot be overemphasized.

International trade is, and always must be, a two-way affair. One country alone cannot achieve, let alone maintain, the highest possible living standards without importing foreign goods and services and what is particularly true in the case of a growing nation like Canada, accepting foreign loans and investments. But to import such goods and services a country must be able and ready to pay for them and it can only make payment by the export of its own goods and services. Thus, international trading causes balance of payment problems. Today the nations of the free world do not have co-operation in balance of payment matters one with another. This is the crux of the problem, as we see it.

We do not think it necessary here to recapitulate the many and complicated factors underlying this problem in all its aspects or to dwell on the benefits which can be expected to flow from a solution however elementary. In point of fact, these were placed before your Committee, Mr. Chairman, at some length on March 25th by one of the member Boards of The Canadian Chamber of Commerce, the Quebec Board of Trade, and we are indebted to Dr. Alfred M. Landsberger, their Economic Consultant, for his contribution on the problem. The Foreign Trade Committee of The Canadian Chamber of Commerce shares in the conclusions of the Quebec Board of Trade that any attempt fundamentally to improve economic co-operation between the democratic nations of the free world must start with systematic co-operation in balance of payment matters.

In the opinion of the members of the Foreign Trade Committee of The Canadian Chamber of Commerce, the ground-work for such co-operation can be said to be in the making today on the basis of the recently published statements by the United States and the British Governments. These statements and those of the Canadian Government, stress the great importance of developing policies to achieve the objectives of multilateral trade, the free flow of capital, economic development and the convertibility of currencies.

In his State of the Union message to Congress, President Eisenhower laid emphasis on the importance of the trade policy and the economic relations

of the United States with the nations of the free world, stressing the need to develop through co-operative action of the free nations, a strong and self-supporting economic system capable of providing both the military strength to deter aggression and rising productivity to improve living standards. On April 7th the President formally asked Congress for a one-year extension of the Reciprocal Trade Agreements Act in its present form to enable a thorough and comprehensive examination of the economic foreign policy of the United States. He stated that such a re-examination is imperative in order to develop more effective solutions to the international economic problem today confronting the United States and its partners in the community of free nations. He stated that no feature of American policy is more important than the course of the United States' economic relations with other nations. He told Congress that the long term economic stability of the whole free world and the over-riding question of world peace will be heavily influenced by the wisdom of the decisions of the Congress of the United States. The security of the United States is fully as dependent upon the economic health and stability of the other free nations as upon their adequate military strength.

The solution of the free world's economic problems is a co-operative task. It is not one which the United States, however strong its leadership and however firm its dedication to these objectives, can effectively attack alone. The President underlined two basic truths: The United States' share in this undertaking is so large as to be crucially important to its success—and its success is crucially important to the United States.

As to the sterling area. The Canadian Chamber of Commerce is fully cognisant of the efforts being made at this time by the Canadian and the British Governments toward the desired objectives. It is equally aware of the difficulties inherent in these problems.

The official communique issued on December 15, 1952 at the conclusion of the Commonwealth Economic Conference clearly sets forth the policies agreed upon by the members of the British Commonwealth of Nations toward a better economic relationship among the free nations of the world. The conference was convened with the aim of concerting measures for increasing the economic strength of the commonwealth countries, including the colonial territories, and creating conditions in which their peoples can play their part in securing prosperity and contentment for themselves and for the world.

In the opinion of the Canadian Chamber of Commerce, the policies and proposals adopted by the conference represent a substantial advancement in the thinking on the problem. It is noted that the conference proposed to seek acceptance of this plan by the Governments of the United States and of European countries whose co-operation is essential and to work, as far as possible, through existing international institutions dealing with finance and trade.

Although none of the details have as yet been published, the Chamber has noted with great interest the reception accorded to Chancellor R. A. Butler on the occasion of his recent visit to Washington and Ottawa. It is apparent at this stage that until the Governments of the United States and Canada pronounce on Chancellor Butler's proposals, there is a limit to the extent to which private business can make long range plans relating to international trade.

We have also noted that Chancellor Butler and Foreign Minister Eden were accorded a satisfactory reception on the occasion of their meetings at the end of March with the European Governments. For the first time in many years a definite sense of direction appears to be felt by those charged with the responsibility in this difficult field, an attitude which can be attributed largely to British initiative. To this extent, a large measure of agreement has replaced the confusion that was beginning to become chaos. The Commonwealth Plan,

as it is now known, consists of two sets of decisions of fundamentally different types. One concerns the objectives of economic policy in the international field, the other concerns agencies or institutions. It now seems certain that the British government is convinced that nothing short of a pound sterling free of exchange controls must be the ultimate goal. Sterling should again become a currency that can be exchanged freely for all currencies without limitation coupled with a trading system in which movements of goods are subjected only to uniform customs and normal trade regulations.

A further and wider step towards clarification is also apparent in the British attitude towards the International Monetary Fund whose basic reason for existence is to promote the stability and convertibility of currencies and towards the General Agreement on Tariffs and Trade whose existence is to stabilize and ultimately reduce trade barriers and remove quantitative restrictions on trade. The attitude of the United States' Government to these objectives is awaited with great expectations.

Within the past ten days the Foreign Trade Committee of the Chamber has reviewed these problems first hand with businessmen in Western Canada and would sum up the views of the members of its Foreign Trade Committee in Vancouver and Winnipeg as follows:

1. The consensus of opinion is that wider international trade must be achieved among the free nations. What is at stake is more than a matter of trade—it is the achievement of better economic relations within the free world and the strengthening of the free world to meet the common danger.

2. In view of the present status of events, it is felt that the Canadian Government should not obscure the goal of wider international trade by the imposition of any additional restrictions on international trade at this particular time,

The Foreign Trade Committee of the Canadian Chamber of Commerce does not consider anything is to be gained at this particular time and place by a recital of the economic ills of the free nations, by expecting an unrealistic benevolence on the part of the United States or by putting forward piecemeal suggestions, however attractive they may seem from the purely Canadian and national point of view.

Approval of President Eisenhower's recommendations is today before the Congress of the United States and the decision is theirs. No information is yet available to us as to the results, if any, of Chancellor Butler's talks with the United States' Government and with our own Government last month. The Foreign Trade Committee of The Canadian Chamber of Commerce considers that further progress along these lines is essential before the interests of Canadian business can be intelligently planned and prosecuted. It is therefore recommended that an official Canadian Committee be established by the Canadian Government charged with the responsibility of promoting Canada's international trade relations, its policies and procedures necessary to bring prompt and effective results in the interests of Canadian business and the nation as a whole. It is recommended that such a committee consist of representatives of the Canadian Government, of Canadian business, and possibly other groups, its terms of reference to be developed and agreed upon by the Government and the other representatives and then laid down by Canadian government decree.

This, Mr. Chairman, concludes our remarks. We thank you for the privilege of appearing here.

Hon. Mr. HORNER: May I say to Mr. Henderson that another important committee, that on Banking and Commerce, is about to sit, and several senators have had to leave.

Mr. HENDERSON: I appreciate that.

The CHAIRMAN: I was going to announce that. It is to be hoped that they will be able to get back.

Hon. Mr. PIRIE: I think several others have to leave. What is your quorum?

The CHAIRMAN: Seven.

Hon. Mr. MACLENNAN: I saw in the *Christian Science Monitor* newspaper yesterday evening that there is a committee of Congress studying the tariff with a view to increasing it. You did not see that paper?

Mr. HENDERSON: With a view to increasing the United States tariff?

Hon. Mr. MACLENNAN: Yes, against all and sundry.

Mr. HENDERSON: We have noted references in the press as to the rise of protectionism in the United States. But our consensus of opinion is that at this particular juncture, as we are awaiting some very substantial pronouncements from the President himself, we should rest on the statements already made by the President and other thinkers in the United States. Incidentally, at three o'clock this afternoon the President of the United States is to make a broadcast as to that country's defence policy and how it is going to deal with the dollar problem for defence aid in the future.

Hon. Mr. MACLENNAN: This article implied that Congress would not pull with the President.

Mr. HENDERSON: I am afraid there is no doubt that there is going to be a great deal of argument, a rising wave of it, but until it is officially brought out and the President has made further pronouncements, we feel no good would be gained by being critical of the United States.

Hon. Mr. EULER: Following along that line, Mr. Henderson, I think we are all a bit disquieted by the apparent trend in the United States towards higher tariffs, and no matter what President Eisenhower may think or say, he may find some difficulty in carrying the American Congress with him. I believe that is a fact, but I was going to refer to your summation where you say: "In view of the present status of events, it is felt that the Canadian government should not obscure the goal of wider international trade by the imposition of any additional restrictions on international trade at this particular time."

I suppose by that you mean the natural tendency on the part of Canadians, in view of what the United States has already done by way of violating GATT agreements, is not to take reprisals at the present time. In other words, you would not suggest there should be any reprisals on the part of Canada?

Mr. HENDERSON: Well, sir, that is correct. We feel it would be premature for Canada at this stage to do anything like that.

Hon. Mr. BURCHILL: I am interested in your reference to Great Britain. I take it from that that you think it will be tougher for us to trade with Great Britain in the future than it has been in the past, on account of a scarcity of dollars. Is that right?

Mr. HENDERSON: Sir, I think the answer to that question, if I may say so, largely depends on the United States. They hold the cards at the moment and until they start playing them I cannot see how Britain can very well chart her course any more than we can.

Hon. Mr. BURCHILL: I notice you say that the United Kingdom produced a surplus of 170 million in 1952, and that it is estimated to meet overseas commitments in 1953 Britain must earn a surplus of 300 million to 350 million. In other words, they have to restrict their purchases in dollars.

Mr. HENDERSON: Absolutely sir, yes.

Hon. Mr. BURCHILL: So that would mean those of us who are dependent on our British market for our goods will find the going tougher in the future if they have not got dollars.

Mr. HENDERSON: That is the feeling of the businessmen on our committee, sir.

Hon. Mr. BURCHILL: Of that amount you have quoted there are a lot of government commitments in the way of payments on loans and interest and that sort of thing, are there not? You say they have to meet overseas commitments. Now, if overseas governments made terms easier for Great Britain and extended the payments, would that not help private trade? Would that not make dollars available for private trade?

Mr. HENDERSON: Yes, I think it would, but I believe I am right in saying that after extensive discussions with our foreign trade committee here and in the West, our feeling is that Canada has gone as far as she can in helping Britain, whether it is by extended terms or by helping her to earn dollars and so forth in our country. In other words, for a country of 15 million people we have gone about as far as we can go in this particular economic climate.

Hon. Mr. BURCHILL: I take it that it is the United States which holds the key?

Mr. HENDERSON: Oh, yes.

Hon. Mr. CRERAR: Mr. Chairman, is the effect not that the so-called dollar countries cannot possibly provide a crutch for Britain and the rest of Europe? That is what we have been doing, and I think probably wisely, up to the present time. I agree with Mr. Henderson that as a permanent policy that is out, and for obvious reasons it cannot be carried through.

As far as the United States is concerned, the members of Congress, of course, like all other parliamentarians, like to talk and they will talk a great deal about trade. But I still have a good deal of confidence that President Eisenhower will get an extension of his reciprocal trade agreement program which was initiated by his predecessors. Probably on that issue the majority of Congress are with him, and what Eisenhower is obviously trying to do is build up his Republican party again. There is no doubt that his party has been pretty badly split in the past, and that he wants to unify it. I doubt very much, however, if he will continue the plan of unification to the point of going back on his trade views, and before very long that issue will have to be determined in the United States. I agree wholly with the views expressed in this brief, and Mr. Chairman, it is a matter of some interest that the other brief that has been presented to us played upon the same thing—that trade is a two-way street and if we are going to impose barriers against other countries then sooner or later we shall be unable to sell to those countries. I feel that truth is pretty steadily sinking into the American mind. What they are undergoing is a process of education in elementary economics. Whatever happens, the logic of events are against the isolationists economically. We may experience disappointments and irritations and all that sort of thing, but the logic of events are against them and will ultimately prevail. That is my very convinced view.

Hon. Mr. EULER: You are quite an optimist.

Hon. Mr. CRERAR: No, I do not think so; at any rate, I prefer to be an optimist than a pessimist. Personally speaking, I like the declaration in this brief. I am convinced that the fewer interventions we have from the governments here and elsewhere—where they are in the form of protective devices or controls or anything else—the better it will be. These things never work out. The government is the last agency on earth who should try and control the economic destinies of a country by its wisdom. What it needs to do is leave the people free to work and double their own energies and their own trading. As a free enterpriser, Mr. Henderson, I sympathize wholly with your views in that respect.

Hon. Mr. EULER: You did not say a free trader, you just said a free enterpriser.

Hon. Mr. CRERAR: I was going to ask Mr. Henderson a question that I asked the other day.

The CHAIRMAN: I think, Senator Crerar, that idea of sinking in the minds of the businessmen, other than governments and organizations like we have before us this morning, is certainly doing a great educational work among business men that trade must be a two-way street if they are going to continue their international business.

Mr. Henderson, I read not long ago that there is really more business done in sterling today—more trading throughout the world, than in the dollar. That surprised me, that there was more business being done in the world through the sterling than the dollar.

Mr. HENDERSON: I would like to ask Mr. Blair to deal with that. He travels widely in both areas.

Mr. BLAIR: As a general statement I would say that is true, that the sterling area total is a much broader area than the dollar area. The major problem is to find out how sterling can be converted to dollars along with the chains of other currencies.

Hon. Mr. TURGEON: The convertibility of sterling to dollars would settle the problem fairly well?

Mr. BLAIR: I would not say it would settle the problem, but certainly it would be a major step in the right direction.

Hon. Mr. HORNER: Have you any suggestion as to how convertibility may be brought about?

Mr. BLAIR: I think if I had the capacity to solve that one, I would probably run for Prime Minister. There is a great wealth of ideas on the subject, and I think as we suggested in the brief here, through continued co-operation among nations it is the only channel through which we might eventually find the solution.

Hon. Mr. HORNER: Well, it would seem that all the various moves, such as the Breton Woods agreement and so on, that we have made, instead of helping have added greater confusion to the whole issue.

Mr. BLAIR: Well, there are undoubtedly evidences of wrong guesses along the way, but I think that the general principle of co-operative international institutions leads in the right direction. Now, whether or not we can continue to use the organizations that have already been developed and through a re-constitution of those find a means of achieving the end which they set down originally, remains to be seen; or whether or not we need an entirely new approach is somewhat beyond me to say. But I feel, more as a personal opinion than anything, that within a re-constitution of the international monetary fund to provide a means of obtaining that kind of world upon which the principles of the fund depend we may in that channel attain in the original goals of the fund, re-convertibility for multilateral trade.

Hon. Mr. EULER: Would you say, getting down to brass tacks, that the vital factor in the whole situation is if the United States would be more willing to open its doors to foreign goods?

Mr. BLAIR: Well, there is a lot of discussion on that point, and of course there is a great division of opinion not only between the rest of the world and the United States, but even within the United States. To what degree real improvement would be attained by complete abolition, shall we say, of tariff restrictions in the United States is a very difficult thing to measure.

Hon. Mr. EULER: I was not suggesting that altogether, but very very definite lowering of their tariffs and removal of restrictions.

Mr. BLAIR: It is a very difficult thing to say to what extent that would really improve the volume of trade.

Hon. Mr. EULER: You do admit that would improve the situation?

Mr. BLAIR: To what extent, is the question.

Hon. Mr. HORNER: Some comment was made, I think by Bevin, and some others, to the effect that better use might be made of the gold buried at Fort Knox, for instance.

Mr. BLAIR: That gets us into another very large problem.

Hon. Mr. CRERAR: I do not know that I agree with the opinion expressed by the witness a minute ago, that is, that a way to improve or settle this problem might be found—if I understood correctly—in enlarging the resources of the international monetary fund. If I am correct in that, I am bound to say that I cannot see in the end where that will work out, because what would happen is that, say, the resources of the international monetary fund were increased ten times, those resources would have to come largely from North America. Then the international monetary fund operates and debts are created, and then what really happens is that the international monetary fund bails them out for the time being. It boils down to this, in my mind, that there is not much difference between that process and, say, the dollar countries continuing to loan to the so-called sterling countries.

Hon. Mr. EULER: The same thing.

Hon. Mr. CRERAR: The remedy can only be found by a willingness on the part of the dollar countries who accept goods from the sterling countries, because that is the problem, between sterling and dollars. That could come about by relaxation of customs regulations, easing the processes of trade and reduction of tariffs, and so forth. But that would not solve the question, it seems to me, unless something else were done in the sterling countries. Taking Britain as an instance, I doubt very much if Britain can maintain the welfare state plans on the existing scale, which involves substantial wages, especially shorter hours of work, and all that sort of thing, and bring herself back. And we in Canada are trying to do that, the United States is trying to do that. We have the advantage over Britain that we have immense resources to work with, and Britain has not. So that there is no easy solution to this problem of sterling dollar exchange. At bottom it is a political problem, how far can governments carry their peoples today and adopt sensible policies. That fundamentally, as I see it, is at the bottom of the issue.

Mr. HENDERSON: That is why we, sir, in this committee, feel that the balance of payments problem, relating as it does to the internal economies of these countries is at the crux of the matter. They have to clean up their internal economies before they can balance trade.

Hon. Mr. HORNER: Is it not a question of the very great variety of the cost of production, hours of labour and wages? Are they not a bar to trade? For instance, it is impossible for Canada to accept goods, where men are willing to work 12 hours a day for half of what our men would. That is the stumbling block, is it not?

Mr. HENDERSON: I think it is. I suppose you have in mind Japan?

Hon. Mr. HORNER: Yes, and Germany.

Mr. HENDERSON: I would like to ask Mr. Reid to speak on this, but just from my general reading and study of the problem I would submit that the

costs in some of these countries, and particularly Britain, have gone up phenomenally as a result of their internal inflation, but when you reach to Japan and Germany, of course, you undoubtedly are still facing a standard of living the cost of which is so far below ours as to give us quite a problem.

Hon. Mr. HORNER: And two countries with which it seems almost a must for us to trade with under the present circumstances.

Mr. HENDERSON: Absolutely, if we adhere to our policy here.

Hon. Mr. HORNER: And our safeguard.

Mr. REID: Honourable chairman, I think that what Mr. Henderson said is quite correct. There is this additional factor that if you have a nation—where you perhaps have low wages in relationship to what we are accustomed in Canada, it does not necessarily mean that that nation is going to be more competitive across a wide range of products, for this reason, that they may not to begin with have access to raw materials to the same extent which other nations with which they are competing have. Secondly, they may not have the machinery and equipment and technical know-how which enables the other nations who pay higher wages still to produce much more efficiently the same product.

Hon. Mr. EULER: Do you think that would apply to west Germany?

Hon. Mr. HORNER: Not at all.

Mr. REID: It would not apply to the know-how, no sir. I think western Germany has shown an amazing renaissance from the war industry, there is no doubt about that; but I was merely speaking of basic principles.

Hon. Mr. DUFFUS: There has been a lot of discussion on the part of this committee, Mr. Chairman, and I have been listening more than talking, but it occurs to me in a general way that the broad attitude of co-operation and diplomacy on the part of these countries would bring about more results and better results than anything else.

The CHAIRMAN: I do not think there is any question about that.

Hon. Mr. EULER: No—that is the trouble.

Hon. Mr. DUFFUS: I think we are going to have a great many conferences between nations in solving this problem and more particularly within the next eight or twelve months.

The CHAIRMAN: Sometimes a situation has to get worse before it gets better to wake the people and the governments up. I think you are right, sir.

Hon. Mr. BURCHILL: We started off—and, Mr. Chairman, you will correct me if I am wrong—by having gentlemen like Mr. Henderson, his associates, and the others who have appeared for us, to suggest or recommend a way in which we could take in some sterling. Is that not right, Mr. Chairman?

The CHAIRMAN: That is right.

Hon. Mr. BURCHILL: In other words, how we in Canada could increase our trade, say, with the sterling area. That was what we started off with.

The CHAIRMAN: That is right, Senator Burchill.

Hon. Mr. BURCHILL: To see if we could not discover some route or channel by which Canada could do a little more trade with the sterling areas. Now, we are not making very much headway, are we? Have we had a suggestion so far from any of the very, very distinguished delegations that have appeared before us as to how that can be done?

The CHAIRMAN: In the brief you made a suggestion, did you not, about 50 businessmen studying the problem—or, what was that suggestion?

Mr. HENDERSON: Mr. Chairman, as Senator Burchill so aptly puts it, the whole problem as we see it is so complicated, there are so many angles to it, it is the most tremendous problem that we have been faced with certainly

in our time, because back of it is the peace of the world, and all the rest of it. We feel that the blueprint is only going to be developed through the medium of careful discussion and weighing up by the best minds we have in the country, through the medium of across-the-table discussions, and probably eight hours a day to do it, in an endeavour to produce a white paper or an intelligent blueprint. Now, speaking as a businessman who also spent war years in the government, and as one who knows the calibre of our people in the public service, we in business have the highest possible regard for the deputies and our people in the public service.

We in business have got the highest possible regard for the deputies and other people in the public service. We submit that it would be valuable if some means could be found for the formation of a small working committee on an official basis. Perhaps some of the people who served in the war could come and give their full time to sitting down and studying something of the international problems and the international background and the diplomatic relationships. Such a committee could be guided accordingly and they could hammer out a plan that would have a practical application. They could be charged with the responsibility of bringing down, as they say in Britain, a white paper. In itself that might well represent a real contribution to the solution of the problem. We cannot profess to speak for the whole world but I do not think Canada needs to take second place at all in the terms of its leadership in thinking out economic and other problems. Canada is in a highly fortunate position in that regard. Another point is this. When the United Kingdom went on its big dollar drive the Canadian government formed a dollar advisory board to help the United Kingdom find ways to earn dollars. That was a laudable undertaking, and I am sure it helped Britain immeasurably. That board has presumably completed its work and has been dissolved. If this government saw fit to help the United Kingdom earn dollars here, by the same token is it not reasonable to suggest that it might form at least a little group of its own to deal with what is a far bigger problem for our country? That is the thinking behind that suggestion.

Hon. Mr. EULER: It would be a very fine thing if such a committee could arrive at what they think is a good suggestion for the solution of the problem, but it would still be a political problem to convince the governments of the merits of the suggestions the committee might make.

Mr. HENDERSON: Oh, absolutely, sir. After the paper is brought down it would then be taken on by the government on that basis.

Hon. Mr. EULER: It would be pretty difficult so far as the United States is concerned.

Hon. Mr. MACLENNAN: Mr. Chairman, did you say that there is another delegation here?

The CHAIRMAN: Yes.

Hon. Mr. DUFFUS: I should like to ask Mr. Henderson a question. Are the numbers of Boards of Trade and Chambers of Commerce rapidly increasing in Canada?

Mr. HENDERSON: I should like to call upon Mr. Sheridan, our Secretary, to answer that inquiry. He is much more familiar with these figures than I am.

Hon. Mr. DUFFUS: And where is the Secretary from?

Mr. HENDERSON: Montreal.

Mr. SHERIDAN: Honourable Mr. Chairman and honourable senators, in answer to that question I should like to say that the great movement of the Canadian Chambers of Commerce in Canada started in 1944. At that time there were in Canada 150 Boards of Trade and Chambers of Commerce affiliated

with the national organization, which is the Canadian Chamber of Commerce. Since 1944 that number has increased to close to 700. It is a variable figure because, in some of the smallest communities, a Board of Trade or Chamber of Commerce will close and a new one will start up. I cannot therefore give you an exact figure, but we feel that in having about 700 we have pretty well attained the maximum number. Actually in Canada today over 8 per cent of communities having a population of 5,000 or more have a Board of Trade or a Chamber of Commerce affiliated with the national organization. So we feel we have reached pretty well a plateau at close to 700. Does that answer your question?

Hon. Mr. DUFFUS: Yes. I have been a member of the Chamber of Commerce of Peterborough and have taken an active part in it since approximately 1918. Until recently I attended most of its meetings. I became the President of the Ontario Boards of Trade and Chambers of Commerce and it is my opinion that the people who are in those bodies now are of very great value to the Dominion of Canada. Every village of two or three thousand people around the city of Peterborough has a Chamber of Commerce.

Mr. HENDERSON: That is quite right, sir.

Hon. Mr. DUFFUS: They are doing a great work and will continue to do so.

Mr. HENDERSON: Thank you.

The CHAIRMAN: If this was an emergency period we could probably furnish Great Britain with a half billion or a billion dollars by redeeming our securities; on the other hand, we pay about a billion dollars a week serving these securities and Great Britain gets the benefit of that. Probably it would be better to do that—if it is going to last for several years—than to pay a billion dollars to redeem our securities in London. I think South Africa did that in connection with their gold mining stocks and diamond mining stocks. A lot of those securities were redeemed to help England out in her dollar situation. They took them back to Africa and placed them in a Crown company, and then sold them to the public on the understanding that they would hold them. If this was an emergency then unquestionably we could furnish England with, say, half a billion or a billion dollars on Canadian securities which are held on the stock exchanges. Another suggestion has come to me, and it has to do with the unrequited exports of England for which they really do not get back imports. For instance, a merchant may send out a million dollars worth of goods to India and be paid in England in pounds. This puts a lot of pounds in England, but 20 per cent of that amount is deducted and goes towards England's war debt, so that the country, as a whole, gets back only about \$800,000. I have read considerable about these unrequited exports to Egypt, and so forth. It has been suggested that some aid might be given England in the way of extending this payment over fifty years or more so that they would get a bigger percentage back, and so they would have some of those exports to ship to dollar countries. If they could separate the current pounds from these block pounds, which are redeemed all the time through their exports, it might strengthen their position. I think your argument is that the pound should be given back to private enterprise as soon as possible, so that its position will be strengthened. We do not know as traders whether tomorrow morning we might read in the paper that the pound has been devalued again, and private enterprisers might not take a chance on such a situation. They just do not know whether they might have control of it today and that tomorrow they might lose \$50,000 or \$100,000 through somebody sitting at the head of a table and changing the rules of the game. Could you elucidate on that, Mr. Henderson?

Mr. HENDERSON: Mr. Chairman, I do not think Canadian business is interested in investing money in the sterling areas today; there is no attraction to capital under the present rigidity of regulations. However, they do service

the dividends and interest in many cases, and in certain areas capital can be taken out. They have various procedures to attract capital, but Wall Street generally and the thinking in the United States—which still has quite an influence on the planning of Canadian businessmen—is very cagey about putting money into an area that has as many restrictions as the sterling area.

Hon. Mr. EULER: Especially when you do not know when if ever you will get it back.

Mr. HENDERSON: I am not a banker, but there are a host of different kinds of sterling being dealt in, in various manners, shapes and forms, with certain countries; and it is very difficult to chart your course under the various regulations.

I think, Mr. Chairman, you are quite right, that this is not an emergency situation. If it were, Canada would not be found lacking; we could devise some technique to take care of it, as we have done in the past. However, we are now tackling something that is very deep-rooted; and we are hopeful that as a result of your deliberations here that you may be able to get to the crux of the problem.

The CHAIRMAN: We need a long-range plan.

Hon. Mr. DUFFUS: What is the main snag in the sterling area problem?

Mr. HENDERSON: I would define it by saying that they do not have dollars and they can't buy; that means that they have to develop a trading area within the sterling block, which sows seeds of discord and misunderstanding as the years go on. Perhaps my associates could better define that situation.

The CHAIRMAN: Do you not think that every trading area needs not only investments but raw materials—even the Iron Curtain countries and the United States await development? The wealth of the British Empire is in the land and sea, but she has a very poor working capital. If her productive energy could be financed by the removal of restrictions so that capital would flow in, she could soon produce more.

Mr. HENDERSON: That is true; but they have got to create a climate that will attract capital. I do not think the Canadian capital is any more anxious than American capital to go into a climate that is as badly tied up in its domestic affairs as is the sterling area.

Hon. Mr. EULER: People are not going to invest their money in the sterling area countries unless they have some certainty or hope of getting it back—that might prove very difficult—especially when the Canadian capitalist can find more remunerative returns by investing his capital in Canada. It is most difficult to induce capital from either the United States or Canada to go into European or other sterling area countries. Is that not so?

Mr. HENDERSON: Yes.

The CHAIRMAN: I was quite surprised when in Jamaica recently to find out that a big hotel there, built at a cost of several million dollars, had quite a few Canadians listed among its shareholders. I made inquiries from the leader of the House of Representatives there, and he said that Jamaica was absolutely free in that respect, that Canadians could put their capital in there and draw it out or take their dividends whenever they wanted to.

Hon. Mr. EULER: I happen to know that they cannot do so. I am a director of an insurance company which has a branch in Jamaica, and it has to invest its money in the West Indies; it cannot take it out of that country.

The CHAIRMAN: I understand that this arrangement in Jamaica is quite new.

Mr. HENDERSON: Mr. Chairman, perhaps I could amplify that a little bit. I know something about Jamaica and I know that they have extended various concessions to new industries, particularly the hotel business, with a view to

bringing in Canadian capital. They have also made certain concessions with respect to income tax. As far as the actual money is concerned, Jamaica ranks along with the United Kingdom and I think a number of other sections of the British Empire by which, under a ruling of the Bank of England in January, 1950, dollars can be invested in the sterling area under repatriation privileges; that is to say, they will always service your capital with dollars, and the capital itself can be withdrawn, provided it was invested after January 1, 1950. The Bank of England has said that it will put up the dollars to let you take your money out. If however the capital was placed there prior to January 1, 1950, it is frozen; that may apply to the point raised by Senator Euler. I think at the recent Commonwealth Economic Conference Mr. Butler went a step further, and said that if you made a capital profit with that investment since January 1, 1950, you could take that out too in dollars.

Hon. Mr. EULER: That is news to me.

Mr. HENDERSON: However, you can only take that capital out in dollars provided you have the money there and do not have to borrow it from the British bank and so forth. It is hedged with a lot of restrictions, but they have done that much.

The CHAIRMAN: Are there any further questions to be asked of Mr. Henderson and his associates?

Hon. Mr. EULER: I would like to move a vote of thanks to these gentlemen for the valuable information they have given us.

Hon. Mr. BURCHILL: I will second it.

The CHAIRMAN: You gentlemen have given a most interesting brief, and have been most patient in answering our questions.

Mr. HENDERSON: Thank you very much, sir.

The CHAIRMAN: We now have before us a delegation from the Trades and Labour Congress of Canada. I will first call on Mr. Percy Bengough, President of the Congress, to introduce Mr. Wismer who will present the brief.

Mr. PERCY BENGOUGH: Honourable chairman and members of the committee, the Trades and Labour Congress of Canada, with its 300 odd local unions and branches, has a membership in every province in Canada, and represents almost every type of business. I would not say that the unions are unanimous on this very difficult question which you are considering. Their views vary to some degree according to the line of business they happen to be engaged in.

We subscribe to the fact that international trade of necessity is a two-way street, and there is no difference of opinion as to what should flow out. The difference of opinion would come in, of course, as to what is in the truck coming back. What I mean by that is that the membership, many thousands of whom are in the newsprint industry, are not so much concerned, that is not so vitally affected as to the goods which would be coming back that would adversely affect those in other lines of employment. Our concern really is, I think, to keep Canadian labour gainfully employed. As I stated before, among the 525,000 members that we have there is a wide variation—I do not think you could have it wider—of Canadians who are affected in divers ways.

I want to introduce to you Mr. Leslie Wismer, who is the Director of Public Relations and Research of the Trades and Labour Congress of Canada.

Mr. L. E. WISMER: Mr. Chairman and honourable members, the Trades and Labour Congress of Canada is pleased to have this opportunity to place its views before your Committee on how and what practical steps could be taken to further implement Article 2 of the North Atlantic Treaty. In this

Article the contracting nations agreed that: "They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them". To say the least this statement envisages something new in international trade relations not only in seeking "to eliminate conflict in their international economic policies" but also, and this more particularly, in that they "will encourage economic collaboration between any or all of them".

This Congress has traditionally urged and supported extension of international trade and increased Canadian participation in such trade. We have had in the past, and still have, however, certain reservations.

Before we attempt to place before you our views on how Canada could best proceed to carry out her obligation under the NATO Agreement insofar as Article 2 of the treaty is concerned, therefore, we wish to draw your attention to these reservations which we hold in regard to wholesale extension of international trade and increased Canadian participation in such extended trade.

Canada is a great and growing producer of products which most countries require in substantial volume: lumber and the products of the forest including pulp and paper and modern textile fibres; fish products; wheat and agricultural products; uranium, nickel, iron and a whole host of minerals absolutely essential to modern industrial economies; oil processed and manufactured products of ever increasing variety.

Canada is an exporter of many products which fall within the broad categories mentioned above. Our country now ranks fourth—I hear now, third, Mr. Chairman—among the trading nations of the world. We would like to see our exports further increased.

Canada is also an importer. Our imports in dollar value about equal our annual exports. These imports fall into three main groups: raw materials used in our industrial processes—ores used in the production of aluminum, steel and other essential materials; food and other products which cannot be produced in Canada; and products not now produced in Canada but which probably could be. It is this third group of imports that causes many of our affiliated members considerable concern.

We can subscribe in part to the fundamental trading concept that the more trade throughout the world and between the countries of the earth, the greater chance there is for increased Canadian participation in it and the more business done by Canadians both at home and abroad. But we hesitate to go all the way with that theory.

It is the third group of imports that causes the trouble.

If we are to export more and gear our productive capacities to such a policy and campaign, then two unsatisfactory trends are bound to develop: imports, especially in the third group, will increase; and employment of our best skills will become concentrated in our export industries, leaving the home market, which is capable of substantial expansion, underdeveloped. Thus employment would become less stable and the outlook for those with the greatest skills more and more uncertain. And the broad development of secondary industries capable of producing many of the products now imported and of providing employment on a stable basis would not occur.

We are well aware, of course, that a much larger population is necessary to assure us of a broad and healthy home market for our own production. We have made our views known to the Government of Canada on immigration on many occasions. On each occasion we have stressed that we favoured a growing Canadian population to meet the needs of expanding production activities and to broaden our home market. But we have equally stressed

the fact that such immigration must be planned to assure an orderly development of our expanding economy and to avoid the arrival in Canada of newcomers at times when unemployment was high and employment opportunities were few or non-existent.

Thus, in our opinion, any steps that may be taken or contemplated to encourage extension of international trade and Canadian participation in such increased trade must take these internal problems and possible pitfalls into very careful consideration.

Having these considerations in mind, we believe that there are practical steps that could be taken by the North Atlantic Treaty Organization to encourage freer international trade and an extension of trade. Of course, certain steps have been taken with these ends in view and certain institutions, organizations or agreements now exist for these or related purposes including: the Organization for European Economic Co-operation, the European Payments Union, the Colombo Plan, the Technical Assistance Program, the International Monetary Fund and the General Agreement on Tariffs and Trade.

The Organization for European Economic Co-operation, perhaps, holds the most immediate promise of an agency through which the objectives of Article 2 of the Treaty could be attained in a practical way. All of the signatories to the Treaty are engaged in the work of O.E.E.C. since Canada and the United States, although not members of O.E.E.C., participate in its work. O.E.E.C., on the other hand, includes six other European countries—Austria, Germany, Ireland, Sweden, Switzerland, and Trieste—to make its coverage of Europe's economy much more complete than NATO's.

"Europe must be made independent of American economic aid by means of sustained expansion which will restore its competitive capacity, increase its dollar earnings and allow it to move towards a stable equilibrium in a world-wide system of liberalised trade and payments." This, says the OEEC's annual report issued in Paris in December, 1952, summarizes "the essentials of the solution to be sought" if Europe is to become solvent and economically strong.

Canada's interest in the economic strength and stability of Europe is far from theoretical. Quite apart from considerations of unified western defences, the countries forming NATO are our best customers. According to figures published by the Dominion Bureau of Statistics, for the calendar year, 1952, our total exports rose to \$4,301,080,679. Out of this total, our exports to NATO countries, including the United States and the United Kingdom, amounted to \$3,362,541,284 or 78·2 per cent. Our imports, too, are purchased largely from the NATO countries. DBS figures for imports during the calendar eleven months ending November, 1952, show a total of \$3,685,356,554 of which \$3,129,974,897, or 85 per cent were from NATO countries.

Without overlooking or minimizing the importance and potentialities of other markets such as Central and South America, India and Southeast Asia, and other parts of the Commonwealth, it is fair to assume that our currently large customers present and most fertile ground for further expansion of our trade.

Hon. Mr. EULER: May I ask a question there. You say that 78 per cent of our exports go to NATO countries?

Mr. WISMER: Yes.

Hon. Mr. EULER: What percentage goes to the United States?

Mr. WISMER: Well, of course a very large part.

Hon. Mr. EULER: I was wondering how much goes to the European countries that are in the sterling area.

Mr. WISMER: It is a small amount in comparison to what goes to Britain and the United States.

Hon. Mr. EULER: You have not the figures here?

Mr. WISMER: I have not the figures here.

Europe, or perhaps more accurately and more concretely, the countries of Europe, requires sustained expansion to restore its competitive capacity and make it more independent of outside economic aid. This presents three immediate and substantial problems.

The solution of any one of these problems will involve related solutions for the others. They are fully interdependent. Thus in dealing with them one at a time for the purposes of this submission, the order in which they follow in no way suggests any priority in which they may or should be solved.

The first problem or objective is to encourage production and trade within the countries of Europe themselves. This problem has been tackled through OEEC. Efforts have been and still are being made to liberalise trade within Europe. In this connection, OEEC appears to favour the eventual creation of a single European market free from individual national trade barriers and mirroring a common economic policy on the part of all participating countries.

Canada can very justifiably encourage such developments in Europe both through her participation in OEEC and through her membership in NATO. The demand for imports in Europe is great. Unfortunately since the end of World War II, it has been necessary to curtail imports. To have done otherwise in most, if not all, European countries, would have unleashed inflationary forces which would have further impeded necessary and desirable recovery and attempts for creating stability and solvency. Increased internal European production and trade, would, on the other hand, tend to sharpen the competitive capacities within these countries, increase the volume of goods available both for internal European consumption and for export, and allow for a greater volume and variety of imports. Canada, as one of the major exporting nations, would be among the first to benefit.

If Europe is to increase its exports, it must be able to sell its products in outside markets. The largest of these is, of course, the United States. This market, as Canada knows all too well, is also the most difficult to exploit by outside suppliers.

Canada has a major role to play in the opening up of the United States market. Much has been done along this line as our growing exports to our southern neighbour indicates. More needs to be done.

The General Agreement on Tariffs and Trade signed by thirty-four countries including Canada and the United States, is a major step forward in that it provides for substantial reductions in trade barriers, and, in particular, United States tariffs. More needs to be done along this line.

The really perplexing problem faced by all exporting countries seeking to sell their products in the United States arises from its administrative practices in connection with imports. Canada is fully justified in continually seeking realistic adjustment of these practices, for success in this field would greatly aid in the development of our trade with the United States and at the same time encourage other exporters into that market.

Such adjustments in United States' import policies and practices will help Canada in the immediate future more than they can be expected to help European exporters. The United States market is easily the most competitive in the world. Exporters to successfully enter this large and well developed market must be prepared to meet the keenest competition. This involves not only careful pricing, but also substantial capital to cover continent-wide advertising campaigns and servicing. Many European exporters or potential exporters lack the capital to do this.

European exporters, along with Canada, could seek markets elsewhere throughout the world. Increased trade with countries other than the United States and outside the NATO-OEEC group is certainly desirable. But such a program immediately raises the problem of the convertibility of currencies.

This is, of course, the major financial problem of the modern world. Many attempts have been made and more are now being made to overcome it. This problem has a particular aspect in relation to the NATO countries and the development of trade, however, and we wish to deal with it in that connection.

Many of Europe's essential imports must come from the dollar area. Since the war the internal conditions in European countries plus this need for dollar imports has resulted in annual unfavourable trade balances with the dollar countries. This gap has been kept as low as it has been through careful control of imports. In the light of the facts presented in preceding paragraphs—the greater feasibility of increasing European exports to non-dollar countries and the continued difficulties for all exporters to enter the United States, the major dollar market—the gap is not likely to narrow in the immediate future.

On the contrary, it would seem more likely that the gap would widen as European production and exports increased. This would certainly be the case if European exporters sought the most accessible markets and continued to require imports from the dollar countries. And this widening would be further encouraged if the countries of Europe endeavoured to raise, as anyone would expect they would, the living standards of their people, since this would involve an increase in imports, mainly from the highly industrialized dollar countries.

With the real impediments, already discussed, to substantial increases in trade between the dollar and non-dollar areas, it is quite apparent that further significant removing of trade barriers, however important and desirable this would be, would not in itself provide a solution to the European payments problem nor allow of the attainment of the objectives envisaged in Article 2 of the North Atlantic Treaty. Collaboration among the OEEC countries of Europe and the creation of a single market with its encouragement of production, competitive capacity, and exports; opening of the United States market to imports on a broader and more stable basis; and a further general revision of tariff and trade conditions through such mechanisms as the General Agreement on Tariffs and Trade would not singly or in combination, in themselves, provide a stable and continuing basis for the free convertibility of national currencies. The competitive capacity of the United States plus the vagaries of this vast market and economy would still remain the overwhelming factors in world trade, and the outlook for countries outside of the United States would at no time be sufficiently encouraging to create the incentives necessary to expand their internal production and exports. Thus the balance wheel of international trade must be found elsewhere.

Canada has a particular interest in the establishment of stable and freely convertible national currencies, and this Congress can fully support moves in this direction since convertibility would increase our ability to sell where we can and buy needed imports where desirable thus reducing the threat to employment of members of our affiliated organizations in the development and expansion of our international trade. In this connection, however, we do not wish to leave the impression that we view convertibility as a panacea but rather as a prime necessity to effective and constructive expansion in world trade.

The major barrier to extension of world trade on a stable and long term basis is the continuous net export position of the United States. This, coupled with the failure of that country to devise or encourage a consistent and constructive policy for the reinvestment of these annual net balances accruing from its external trading activities, provides for continuous frustration among the other trading nations especially those among the OEEC group.

The slogan now being used by European countries and the leading members of OEEC is "Trade not Aid". This is a good slogan but like many other cryptic phrases tells only the superficial part of the story. Europe

needs something much more than either trade or aid. What Europe needs is the investment in its productive plant and processes of large amounts of outside capital.

The capital needed for investment in Europe's productive facilities is to be found in the net export balances of the United States and to a much lesser degree in those of other creditor countries such as Canada.

In paragraph 2 of your Committee's terms of reference it states: "That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion, (a) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;" and we now wish to make such a suggestion to your Committee.

We recommend the establishment, as an implementation of Article 2 of the North Atlantic Treaty, of a Banking Alliance between the countries who are signatories to the Treaty with the prime purpose of encouraging and directing the investment of capital where necessary and desirable in the signatory countries.

We envisage such an Alliance as an organization capable of giving substance to the basic aims and objectives of OEEC. The broad aim of OEEC for the developing of Europe's productive and competitive capacities leading to extension of both its internal and external trade and the redress of its adverse dollar balances has little or no chance of success without a parallel program of foreign investment in Europe.

Europe is not merely a trans-Atlantic bastion of North American defence. Europe is an economy or group of economies capable of much further expansion and of supporting a much higher standard of living. But these worthwhile objectives require the investment of outside capital for their fulfillment.

We have stressed Europe and the OEEC objectives and problems in this connection not entirely because the NATO and OEEC groups of countries are practically the same, but also because these groups of countries account for the bulk of international trade and certainly of Canada's trade. At the same time we do not wish to ignore the possibilities of trade with other countries especially those within the Commonwealth, and we envisage that the proposed Banking Alliance between the NATO countries would also direct investment in these areas where necessary and desirable with a view to the stabilizing of trade and the convertibility of their currencies. In this latter connection we would hope that the NATO Banking Alliance could formulate a working relationship with the International Monetary Fund.

Without attempting to delineate the full character and operations of the proposed Banking Alliance, it should, in our opinion, be an institution whose basic capital is subscribed by the signatories to the Treaty and its lending capital arises from the uninvested net trading balances of the members.

The joint responsibility for and direction of international investment by the major trading nations of the free world would provide real substance to any program of production and trade expansion such as that envisaged in OEEC, the Colombo Plan and the Technical Assistance Programs, and at the same time create a new atmosphere of stability in world trade.

In such an atmosphere further extension of the General Agreement on Tariffs and Trade would seem to have greater chance of success and to be of greater practical value to all countries concerned.

Although there can be no doubt that Canada should continue her efforts to enter the United States market on better terms, and, in particular, to continue to try to have United States tariff administrative practices adjusted and improved as well as an extension of the Presidential powers under the Reciprocal Trade Agreements Act of 1945, our country has need for greater diversification in external trade both in variety of product sold and in the

number of countries concerned. Too much of our trade for comfort and economic security is with one country. Further, our traditional pattern of trade needs redrawing in order that we may depart from our customary practice of over-selling in the United Kingdom and the OEEC group of countries and over-buying in the United States. The proposed Banking Alliance would make such an adjustment in our trading pattern much easier of attainment.

In connection with the reference that your Committee consider whether any project under Article 2 of the Treaty could have the permanence contemplated in the military obligation of the signatories under Article 5, we would suggest that the proposed Banking Alliance would not only have such permanence but that it would need to have it in order to carry out its purpose successfully.

In making our submission to your Committee we have tried to keep well within your terms of reference and to relate our proposals to the known efforts now being made to improve trade within the NATO group of countries and through them with the rest of the free world. The proposals we have made arise from the known problems now being faced by these countries either alone or in concert through such organizations as OEEC which group of countries so closely resembles the NATO group.

The development of a strong European economy, the freeing of the United States market from many of the administrative defences which isolate it from many potential exporters, and the establishment of full convertibility of national currencies are the prime objectives of those attempting to increase international trade. The basic proposal we have made for the creation of a NATO Banking Alliance we feel will not only tend to establish convertibility on a stable basis, but also give substance to the other programs for the freeing of trade and the encouragement of production.

Greater and more efficient production is the answer to the need and desire for an increasing standard of living in all countries. In Canada we have been experiencing an increase in production and an expansion in our industrial economy with a consequent improvement in living standards. We wish that to continue.

An increased international trade will, in our opinion, aid us in developing our economy and raising our standard of living. Freer international trade in which we can sell where there are buyers and buy needed imports where we desire will, we believe, tend to allow us to encourage more effectively the development of more secondary industries and a larger home market.

The production and delivery of our exports creates employment. Because this is true, it is often argued that expansion of our international trade is one of the best means of increasing employment in Canada. This inference is not wholly valid, however, because the increase in imports so inspired provides a very real threat to employment in Canada. Thus we recommend that very careful consideration be given to the effects of any proposed expansion of our international trade upon employment opportunities and prospects before such propositions are promoted or encouraged. A broad development of secondary industries throughout Canada, in our opinion, is a necessary parallel to expansion of our external trade. In this way alone can we expect to encourage the maximum of employment opportunities and the minimum of threats of unemployment due to a continued high level of imports of goods that can be produced in Canada. At the same time a broad development of our secondary industries would, we believe, tend to reduce the cyclical nature of employment in Canada both in its annual aspect and its longer term pattern and thus add stability both to employment and the consumptive capacity of the home market.

Many factors, we realize, are involved in such developments which cannot be considered here, but the basic proposals we have made will, in our view, lay the groundwork for such advances on a firm and stable basis.

The CHAIRMAN: Thank you, very much, Mr. Wismer. The meeting is now open for questions.

Hon. Mr. TURGEON: The suggestion you make for the creation of a NATO banking alliance is a positive suggestion although I do not know whether I agree with it.

Hon. Mr. EULER: As I understand your suggestion in that respect, you feel that the favourable balances that the dollar countries have from international trade should be re-invested in the sterling areas, is that right?

Mr. WISMER: That is right.

Hon. Mr. EULER: What would be your method of procedure to bring about such a banking arrangement?

Mr. WISMER: As we see it, the simplest way in which it can be brought about is to do what the private banking institutions find undesirable to do on a private basis, by depositing funds in the bank of NATO with full responsibility as a group, in the same way as under Article 5 we are responsible on a group basis.

Hon. Mr. EULER: Would you suggest that there should be a government guarantee behind that capital to be re-invested in the sterling countries?

Mr. WISMER: I would think that some device of that sort would be necessary.

Hon. Mr. EULER: I would think so too; otherwise, I do not think private individuals would go for it.

Mr. WISMER: No.

The CHAIRMAN: It would be a different set-up from the world bank; it would have to be a bank of deposit and issue. I have always felt that there was a weakness in the set-up of the world bank for the reason that notwithstanding the fact there are a great many nations in it, the bank had to borrow money on Wall Street; it seems to me that it should have been a bank of deposit and issue, and in that way it could create a surplus fund.

Hon. Mr. EULER: Your suggestion of the desirability of developing secondary industry is a suggestion I agree with, but how would you bring it about? You would not place restrictions upon exports of raw materials and force them to be manufactured in Canada, would you?

Mr. WISMER: Well, I think there has been a certain amount of encouragement for secondary industry over recent years, mainly by reason of the nature of business since the World War II. I think also the government policy should be directed to an extension of that encouragement. I am not suggesting that we have to tell our friends in other countries that they cannot buy our raw materials to service their plants.

Hon. Mr. EULER: On the other hand, would you take steps, for instance, by way of tariff or quota restrictions, to prevent products of what you think are secondary industries from entering Canada?

Mr. WISMER: I think we could go at it in a more positive way than through tariffs.

Hon. Mr. EULER: How?

Mr. WISMER: For instance, we have a lot of iron in Northern Quebec and no one seems to be encouraging anyone in Canada to build a steel mill.

The CHAIRMAN: In that particular area?

Mr. WISMER: Or in any other area. Also, we have a lot of iron at Port Arthur and gas at Calgary, yet no encouragement is given to transfer that gas to Port Arthur to be used in a steel mill.

Hon. Mr. EULER: A chemical industry has gone into Edmonton and is using the gas there.

Mr. WISMER: But they are not bringing the gas down to Port Arthur to hook up with the iron ore.

Hon. Mr. TURGEON: I should like to make one observation in connection with our exports of raw material. While I agree that up to the present moment there has been an over-export of raw material from Canada, speaking for the most part for Northern British Columbia, without the importation of raw material we could not have our aluminum plant.

Mr. WISMER: Correct.

Hon. Mr. TURGEON: The aluminum plant could not exist without the importation of bauxite, and it cannot be gotten anywhere in Canada.

Hon. Mr. EULER: Of course the country from which bauxite comes could argue in the same way, that the aluminum should be manufactured there.

Mr. WISMER: Yes; and if they had the water power they probably would argue that.

Hon. Mr. BURCHILL: I think you should develop a little further the practical workings of the suggested banking alliance. I do not quite follow how you think it could be developed.

Mr. WISMER: We have in mind that as a group of fourteen nations in NATO we are making some co-operative efforts for the defences of the North Atlantic community; we are taking the responsibility for it, and we are pooling our resources and directing them towards those defences. In the same way, we have felt that the economic resources of those countries could be martialed without interference with private business.

True, we have not thought through the complicated banking machinery; nevertheless, we feel that instead of waiting always for what will happen in Congress or in Whitehall as to what the group should do, encouragement should be given to the group to use the balances which it has from international trade in the best way to encourage trade between NATO countries. But whatever happens, it has to be a combined effort and has to be the full responsibility of the signatory countries.

A question was asked as to whether there would be a guarantee supporting the re-investment of these funds. We feel that is a technical problem. We are not asking private bankers within the countries of NATO to suddenly form a private alliance and do the job. We believe that since the private institutions do not seem to be able to cope with the problem, there should be some over-all way by which the signatory countries could through the international agency usefully invest funds which would create an incentive for the development of industry.

Hon. Mr. BURCHILL: Let us take Canada as an example. We will say Canada now has a surplus of imports over exports of \$500 million. That money is spread all over the country; it may be locked up in banks, it may be invested in brick and stone, or it may be in stocks and bonds. The government of Canada would have to say that that \$500 million was available for re-investment, and that since we are a partner in this banking alliance, we will deposit \$500 million. Is that your idea?

Mr. WISMER: That would be our idea. And, for instance, if the Massey-Harris, whose representative appeared before you today, wanted to use \$50 million on its own, that would leave only \$450 million for the government to direct.

Hon. Mr. BURCHILL: We have heard now from several delegations here that private investment in these countries was undesirable, it was not very "beckoning"; they prefer to invest at home. So that, I take it, governments would have to do what you suggest. Is that right?

Hon. Mr. EULER: Absolutely.

Hon. Mr. BURCHILL: The governments would have to say, "We owe this Banking Alliance \$500 million". The United States would owe them three or four times as much; and so on. All that would have to be on a government level, would it not?

Mr. WISMER: Yes.

Hon. Mr. BURCHILL: So that it is really another World Bank? That is really what it is, is it not?

The CHAIRMAN: The Canadian exporter would be paid with Canadian money.

Hon. Mr. EULER: But, how to cover it altogether?

Hon. Mr. HORNER: You would have very great difficulty.

The CHAIRMAN: It is all the balance of payments. That is the underlying idea. The country would have to pay the Canadian exporter, and, of what they had as a surplus from exports and imports, a certain amount would have to be put behind this independent bank.

Hon. Mr. BURCHILL: I think trading would go on just as it does now, but the government figures would show just what the surplus was that that country had. That is the amount that would be put in this Fund.

Mr. WISMER: I think it is important to remember that at the moment our banks and the United States banks are not looking very favourably at some countries which have been ravaged by war and have great difficulty in rebuilding their plants, and of necessity have a lot of restrictions on everything, with the idea of getting back from poverty. They have a lot of resources of skills and "know-how", and even natural resources.

Hon. Mr. HORNER: As regards at least two of the important countries that were ravaged by war, all they need now is markets for their goods. They are entirely on their feet, and capable of greater production than before the war. I am afraid there would have to be a great deal more stability throughout the world, or we would fare the same as we did with the \$12,000,000 worth of ships that went to China if we attempted anything like that.

Hon. Mr. BURCHILL: I think the witness is to be commended very much for his suggestion. It is about the only suggestion that we have had. But I am just worried as to how it would work out.

Mr. WISMER: After all, all we can do is to give you the idea. It is your job to work it out.

Hon. Mr. HORNER: If it is a case of loaning money, the countries which lent and received it would have to be in agreement that it should be used for the development of some industry which was basic to the borrowing country, and therefore economically sound. I sometimes fear that in view of the world situation things are becoming unbalanced. We forget that Canada is basically agricultural, and that the world needs food. We could increase enormously our food production, but perhaps we are becoming very much overbuilt in industry. Large cities are extending and spreading out on to good farm land. Unless we can maintain our present base we may have cause to regret some of the developments, and it may be that more people will have to be moved on to the land.

The CHAIRMAN: Thank you, Mr. Wismer. I am sure your suggestion is one of the most constructive we have had. In these NATO countries there must be skilled bankers. The proposed bank would have to have representatives from each NATO country on its board: they would be skilled in the investment of money, whether or not the money came from governments or from private interests on deposit. That is the reason I suggested that to my mind such a bank should be a bank of deposit and also a bank of issue. If it had the proper management and all the fourteen NATO countries behind it, in my opinion it would be in a better position to do the job than the World Bank or the World Monetary Fund, which are so restricted that they have to go and borrow money somewhere, and the rate is so high that it is not very interesting to prospective borrowing countries.

Mr. WISMER: In our suggestion what we have in mind is that the NATO group is a group with a common, distinct problem. All the countries are essentially friends attempting a common job. They will be the subscribers, the directors, the depositors, the borrowers and everything else from that bank. In a sense that is something we have in Canada and it is also to be found in the United States. If we are to start to talk in terms of a North Atlantic community, we can ask the bankers what should be the technique, but we should think in those terms.

Hon. Mr. BURCHILL: Representatives of the Chambers of Commerce and others who have appeared here say this can only be solved by co-operation between the different nations. I presume you agree with that, and want to take another step forward. This is one step in the co-operative idea; is that it?

Mr. WISMER: That is exactly right.

Hon. Mr. HORNER: You want bankers in all countries to co-operate in supplying capital. How would it be if labour stepped into the picture and agreed on a basic wage throughout the world?

Mr. WISMER: Well, I say this advisedly: the labour movement has been trying in recent years to co-operate internationally. We have had our difficulties; but within a few weeks the international group of free trade unions will be meeting in Stockholm, Sweden, to discuss the very thing you are talking about,—how can we assist each other in all of these countries to do exactly the same thing that we are talking about here? How can we raise the living standards? And how can our countries protect themselves against a conspiracy that forever tries to enslave us?

Hon. Mr. TURGEON: Do you know the date of that meeting?

Mr. BENGOUGH: It is the 7th of June. It starts at the close of the ILO meeting; about four days later.

Hon. Mr. DUFFUS: Getting back to the question of co-operation: I take it that it consists very largely in the matter of industry and labour working on a co-operative basis. I think we have got to get down to a basis of some kind. We are at cross purposes at the present time. I hope your work will help to get that stability.

Mr. BENGOUGH: You do not mean, in Canada?

Hon. Mr. DUFFUS: I mean, anywhere.

Mr. BENGOUGH: Taking the general run of things we have established co-operation pretty well in Canada.

The CHAIRMAN: Industrial relations seem to be running fairly smoothly in this country?

Mr. BENGOUGH: Yes.

Hon. Mr. DUFFUS: There is one section of opinion to the effect that we should not export our raw material. Others think that we should send our surplus raw material abroad. What is your opinion?

Mr. BENGOUGH: Opinions naturally vary, if I may say so, depending on the line of business in which these people are engaged. Take the railroads. The many thousands of our members who are engaged in transportation are not very much concerned with matters of imports and exports, that is as to what types they should be; but people, we will say, in the shoe industry, would be very much interested and concerned if, for instance, shoes were being brought in from Japan at 50 cents a pair. People in other lines would not be so much concerned. That is, our reactions vary according to the line of employment people are in or as to what type of business they are conducting.

Hon. Mr. DUFFUS: My opinion is that when we have a surplus of a product, if we can sell it somewhere else it would be good business. There are others that have the opposite opinion.

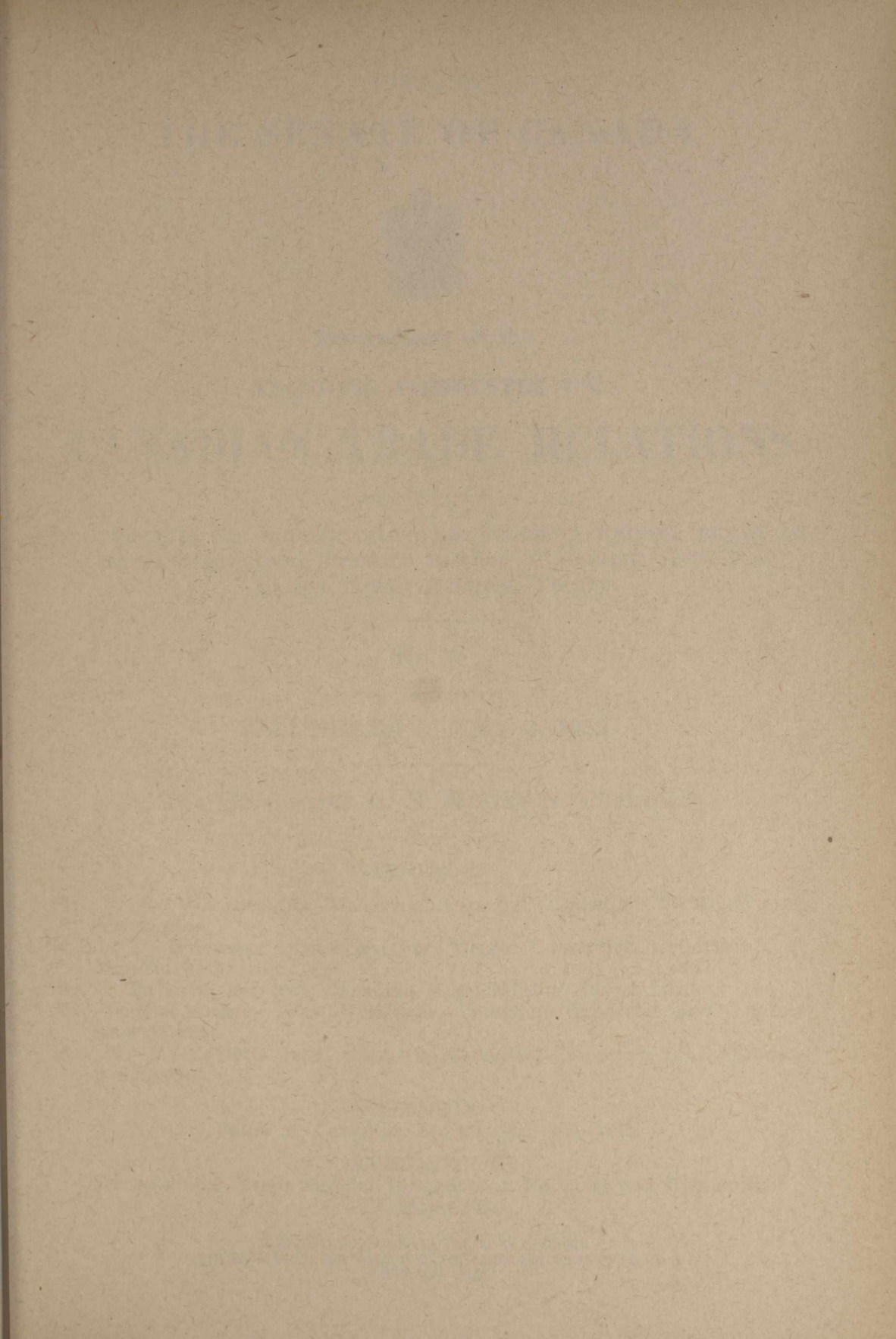
The CHAIRMAN: Does geography not come into that quite a bit? We bring in, say, hard coal from the United States, but if Alberta can ship its coal down to the states, let them ship it, but it is too big a rail haul.

Mr. BENGOUGH: There is around 300 million tons in Calgary, and they have the steam shovel. We say why not put in a smelter, and why not put one in at the head of the lakes.

The CHAIRMAN: We are still large importers of steel, that is true.

Are there no further questions, gentlemen? I think on behalf of all senators here we owe you a strong vote of thanks; you gave us a very fine brief and very constructive suggestions.

Whereupon the committee adjourned.



1952 - 53

THE SENATE OF CANADA



Proceedings of the
STANDING COMMITTEE ON
CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be
the most practical steps to further implement Article 2
of the North Atlantic Treaty.

No. 7

WEDNESDAY, MAY 6, 1953.

The Honourable A. N. McLEAN, Chairman

WITNESSES:

- Mr. V. C. Wansbrough, Managing Director, Canadian Metal Mining Association.
- Mr. G. C. Bateman, former wartime Metals Controller, Department of Munitions and Supply.
- Mr. R. T. Birks, Director, Canadian Metal Mining Association.
- Mr. Thomas Oakley, Past President, Canadian Importers and Traders Association.
- Mr. M. E. Corlett, legal counsel, Canadian Importers and Traders Association.

APPENDIX C

Sales of Canadian Metals and Minerals.

APPENDIX D

International Trade and its Influence on Political and Economic
Development.

CANADIAN TRADE RELATIONS

The Honourable A. N. McLEAN, *Chairman*

The Honourable Senators:

Baird	Duffus	McDonald
Bishop	Euler	McKeen
Blais	Fraser	McLean
Buchanan	Gouin	Nicol
Burchill	*Haig	Paterson
Campbell	Howard	Petten
Crerar	Hushion	Pirie
Daigle	Kinley	*Robertson
Davies	Lambert	Turgeon
Dennis	MacKinnon	Vaillancourt—(30)
Dessureault	MacLennan	

*Ex officio member 35 Members—(Quorum 7)

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Thursday, February 26, 1953:

“That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—“They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them”.

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(a) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(b) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby “The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all”.

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry.

L. C. MOYER,
Clerk of the Senate”.

CHAPTER ON MATHEMATICS

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...the Ministry of Education of the Republic of Turkey...

MINUTES OF PROCEEDINGS

WEDNESDAY, May 6, 1953.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 10.30 a.m.

Present: The Honourable Senators McLean, Chairman, Burchill, Campbell, Crerar, Euler, Gouin, Haig, Kinley, MacLennan, McDonald and Turgeon.—11.

Consideration of the order of reference of February 26, 1953, was resumed.

The following representatives from the Canadian Metal Mining Association were heard:

Mr. V. C. Wansbrough, Managing Director.

Mr. G. C. Bateman, former Wartime Metals Controller, Dept. of Munitions and Supply.

Mr. R. T. Birks, Director.

A table filed by Mr. Wansbrough, "Sales of Canadian Metals and Minerals", was ordered to be printed as Appendix C to these proceedings.

The following representatives from the Canadian Importers and Traders Association were heard:

Mr. Thomas Oakley, Past President.

Mr. M. E. Corlett, legal counsel.

A booklet filed by Mr. Oakley, "International Trade and its Influence on Political and Economic Development", was ordered to be printed as Appendix D to these proceedings.

Further consideration of the order of reference was postponed.

At 1.00 p.m. the Committee adjourned until Thursday, May 7, 1953, at 10.30 a.m.

Attest.

JOHN A. HINDS,
Assistant Chief Clerk of Committees.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, WEDNESDAY, May 6th, 1953.

The Standing Committee on Canadian Trade Relations which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 10.30.

Hon. Mr. McLEAN in the Chair.

The CHAIRMAN: Honourable senators, this is the seventh meeting of the Canadian Trade Relationship to be held since the introduction of the resolution in the Senate on February 12, and which was referred to this honourable committee on February 26. I am sure everyone here is familiar with the resolution, and there is no need to read it.

We are honoured this morning to have before us two very important public bodies, namely the Canadian Metal Mining Association and the Canadian Importers and Traders Association Incorporated. The Canadian Metal Mining Association will lead off with its presentation. The Association is represented here by Mr. R. T. Birks, President of East Malartic Mines and Director of the Canadian Metal Mining Association; Mr. G. C. Bateman, former Wartime Metals Controller of the Department of Munitions and Supply; Mr. R. G. Driver, Assistant Manager of Sales, Noranda Mines Limited; Mr. V. C. Wansbrough, Managing Director of Canadian Metal Mining Association; and Mr. H. H. Wright, Secretary of the Canadian Metal Mining Association.

I understand that Mr. V. C. Wansbrough, Managing Director of the Association, will present the brief. Any other members of the delegation who wish to speak are quite free to do so.

Mr. V. C. WANSBROUGH: Thank you Mr. Chairman. I would like your direction as to how you wish me to deal with the brief. If you prefer, I can summarize those parts which we think lend themselves to summary, and dwell at length on the particular points which we would like to emphasize before the committee.

The CHAIRMAN: What is the feeling of the members of the committee?

Hon. Mr. HAIG: Let the witness deal with it in what he considers the best way to present his case.

Mr. WANSBROUGH: Thank you very much.

Mr. Chairman and honourable members, in the brief you have before you we begin by expressing our warm appreciation for the invitation you have extended to the Canadian Metal Mining Association to make this presentation, fully realizing that the subject matter which you are investigating is of most vital importance to the Canadian welfare as well as to the health and growth of Canadian export industry.

We are particularly grateful for the opportunity of making a presentation before you on behalf of the membership of the association, which includes gold producers and producers of other precious metals, non-ferrous metals, iron and a broad range of industrial minerals.

On page 2 of the brief we set forth the state of the mining industry in Canada in the field of multilateral and external trade. We point out that in the year 1952, the dollar value of the products of Canadian metals and minerals,

excluding gold which comes in for special consideration, is some \$750 million. Below is a list of the major products which go to make up the total of their dollar volume for 1952, including nickel, copper, zinc, lead and asbestos.

We then give the export percentage of each of those metals which you will note as follows: nickel 98 per cent, copper 53 per cent, zinc 87 per cent, lead 72 per cent and asbestos 99 per cent. We say that where, as with copper in particular, a substantial quantity of metal of Canadian origin is fabricated in this country, the export market is also of importance.

In the latest report of the Dominion Bureau of Statistics, analysing Canada's export trade by industries, the non-ferrous metal industry ranks third in importance. Non-ferrous metal exports are shown as amounting to \$707 million in 1952, an increase of \$137 million over 1951.

Non-ferrous Metal Exports by Value, 1952

	1952	Increase Over '51
	\$ millions	
Aluminum and products	162	38
Nickel	151	14
Copper and products	119	32
Zinc and products	97	12
Lead and products	50	4
Precious metals (except gold)	47	—1
Brass and products	23	17

Traditionally Canada's two most important markets have been the United Kingdom and the United States. Figures given in the Appendix illustrate the marked swing which has taken place since the war from the United Kingdom to the United States market.

It may be added that with the developments now taking place in Canadian mining, Canada's mineral production may be expected to increase in important respects, and for many years to come the industry will have to look to external markets for the sale of a high proportion of its products.

In these circumstances it is clearly of vital importance to Canada's third largest export industry that stable and unimpeded conditions of multilateral trade be achieved and maintained.

I should like to add the comment that when we are speaking about base metals we are not referring merely to international interchange of commodities, but of very special commodities which are of vital importance to Canada's defence program for the western world.

In the following paragraph of the brief we suggest that attention be directed this morning to two principal aspects of this question which your committee, Mr. Chairman, is now considering: First, any steps which can be taken to remove direct obstacles which now impede the flow of trade across national boundaries, and secondly stable currency relationships, currency convertibility and more adequate means of international payments.

With regard to restrictions on trade we point out that important progress has been made since the war in the reduction of barriers of trade, but we believe that further progress is to be made in this regard. Further, we say it is fortunately possible to discuss the subject with some candor and without incurring the risk of appearing critical of a friendly neighbour, because the United States tariff policy has been and now is the subject of thorough examination by the present administration of the United States and has received the thoughtful scrutiny of many American public and private commissions and business organizations.

We have in mind two particular reports which have brought out strong recommendations in favour of a liberalization of American tariff and trading policies. The first is entitled "Britain's Economic Problem and Its Meaning

for America", and has been made by the Committee for Economic Development, a private group of leading American industrialists, bankers and economists.

The second is an official report to the President by the Public Advisory Board for Mutual Security, entitled "A Trade and Tariff Policy in the National Interest", and is often referred to by the name of the Board's Chairman as the Bell Report. Your members, Mr. Chairman, will be familiar with the pronouncements made by the Detroit Chamber of Commerce and many other bodies on the American trade policy.

On the top of page 4 of the brief we offer a short digest of certain matters contained in these reports. They concur and recommend the following:

1. A selective reduction in the American tariff by extending the reciprocal Trade Agreements Act (due to expire this June) without the obnoxious "peril point" clauses;

2. A simplification of American customs procedure to enable the foreign exporter to determine just what rate of tariff his product is going to have to pay;

3. Repeal of the "Buy American" Act.

When the trade and tariff policies of the United States are receiving such attention and scrutiny from American leaders, it is not perhaps out of place to point out certain changes which would be regarded as beneficial from the point of view of Canadian producers of metals. There is a strong mutuality of interest. It is acknowledged that metals and minerals of Canadian origin, many of them of top strategic importance, are urgently needed by the United States; and that this demand will increase rather than diminish is evident from the findings of the Paley Report.

In these circumstances it will suffice if we draw attention to certain instances where United States tariff policy does not seem adjusted to the mutual requirements and the changing circumstances of the two countries.

The United States imposes a tariff on nickel of $1\frac{1}{4}$ cents per pound, though it is almost wholly dependent on Canadian sources for its supply. There is no domestic industry to protect, and the tariff therefore serves no purpose but that of raising revenue. It would appear quite unwarranted.

The duty currently imposed on zinc concentrates is similarly regarded by Canadian producers as unjustified. It results in a substantial loss of revenue to Canadian mines, increases the cost to the U.S. consumer, and could deprive U.S. smelters of the concentrates needed to operate their plants at maximum efficiency.

Duties on zinc and lead were reimposed in 1952, when the domestic price of these metals in the United States dropped below an established level. The situation has become very seriously aggravated by bills now before Congress, which are being most actively promoted and which if passed into law would have most injurious effects on Canadian and foreign producers. The purpose of the legislation is to impose, in addition to the currently applicable duties, "sliding scale stabilization duties" on zinc and lead (concentrates and metal), which will apply whenever the U.S. domestic price falls below an established base price. The effect would be to keep prices artificially high and raise the U.S. tariff to a point which would be virtually an embargo on imports. The injurious effects of such legislation on Canadian producers cannot be too strongly emphasized.

Another instance of difficulty arising from U.S. tariff regulations is the one and one-quarter cents per pound duty imposed on copper rods. This is only one of the various primary shapes in which copper is sold, and there seems no reason why this particular form should be singled out for discriminatory treatment.

I would like to add also—what is not in the text—a reference to the United States import duty on electrolytic copper, which is a duty of 2 cents a pound, currently suspended and to remain in suspension until June of 1954 unless the domestic United States price on copper drops below a particular figure, which happens to be $24\frac{1}{2}$ cents a pound.

Instances can be quoted where the rates of duty are practically prohibitive. Baryte, for example, is a mineral which the United States needs to import. The value of the ore at the mine ranges from \$7 to \$10 a ton. The United States tariff on the crude ore is \$3 per ton, or \$6.50 per ton if it is in ground form.

These specific instances are selected to illustrate the general point that much remains to be done by way of reducing the barriers to trade which already exist and of avoiding the erection of further barriers.

In general it would be of great advantage to producers supplying the United States market, especially with primary materials which that country is going to need to an increasing degree, if its tariff rates were established on a longer-term basis and were less subject to sudden change. Temporary suspensions of duties for brief periods, followed by their sudden reimposition and by the imposition of special import taxes can produce nothing but disturbing and unsettling effects.

When we are dealing with base metals we are dealing with materials that are of vital importance for the national defence and international defence, and we are dealing with a commodity the protection of which cannot be quickly turned off and turned on as with a tap. If through tariff policies overseas markets should diminish, and thereby cut back the possibilities of our production, we have no assurance whatever that we shall be adequately supplied with these materials should a national emergency make it necessary.

The Canadian Tariff: As regards the Canadian tariff, we have no special comments to make at this time, except to stress that vigilance is required on the part of the Canadian Government against establishing "blanket" rulings, such as some which have been recently proposed, and which would have the effect of imposing higher rates of duty on items of machinery not manufactured in this country.

Hon. Mr. EULER: Would you elaborate on that? What form has that taken?

Mr. WANSBROUGH: One instance recently was referring to power shovels and cranes, the smaller sizes of which are manufactured in this country but the larger sizes, which are more used in the mining industry, are not. At the present time the larger sizes can be brought in from the United States either free of duty, if they are to be used directly in mining operations, or at the rate of $7\frac{1}{2}$ per cent if not to be used directly for that purpose. In order to give the Canadian manufacturers of power shovels protection, certain sizes such as are made in this country have a protective tariff of $22\frac{1}{2}$ per cent. An attempt was made recently to get a ruling that power shovels are a single class of machinery: if any are made in this country, all should be regarded as made in this country. The effect would have been to increase the range of the $22\frac{1}{2}$ per cent duty to the greater bulk of power shovels which are imported from the United States. That is the kind of thing we have in mind when we speak of "blanket" rulings.

Freight Rates—Reference must be made to the dangers implicit for Canadian producers in the steadily mounting cost of freight rates. Mr. Donald Gordon recently pointed out that increased rates could cause loss of business because they rendered Canadian products non-competitive in world markets. This is particularly true of certain bulk mineral products such as pyrite concentrates where the value f.o.b. mine is substantially less than the freight involved to consuming centres.

Pyrite as a substitute for sulphur holds great possibilities for Canadian mining, but it will be very difficult to develop without some flexibility of policy as regards freight rates. It is believed that lower rates would enable increased tonnage to be shipped and would be beneficial both to the producer and the railway.

Increased freight rates on such products as zinc concentrates and copper concentrates—heavy bulk products—also have a very adverse effect upon the production of these metals.

I would like to make one additional comment there. The difficulty is multiplied as ore bodies are mined in remoter parts, adding therefore to the haul.

This is a problem that certainly cannot be overlooked if Canadian producers are to maintain a competitive position on world markets.

General Government Policy in a Period of Transition: During the period of emergency through which we have been passing for the last two and a half years, governments engaged in stockpiling programmes have been large purchasers of metals and minerals, many of which have been subject to international allocation.

From this period we are now emerging and are returning to more normal methods and channels of trade.

The success of the transition will be greatly facilitated if the policies of governments are kept as stable as possible, and if they avoid, as far as is in their power, sudden changes in any respects which affect the flow of trade or unduly influence the level and trend of prices.

Fundamental Conditions of Multilateral Trade—Apart from particular obstacles which impede the flow of trade between nations such as arise from tariff policies and other forms of restrictive practice, there are certain fundamental conditions which have to be achieved and maintained to assure stability of international commerce.

In particular currencies must remain reasonably stable, convertibility of currencies must be achieved and assured, and national treasuries must have adequate reserves to settle international trade balances.

During the post-war years, trade between the North American countries and the countries of Western Europe has been largely sustained by means of dollar loans and aid programmes.

Between the years 1948 and 1952, for example, metals and minerals of Canadian origin to the value of \$604 million were made available to European countries under the European Recovery Program. These were paid for by U.S. dollars, authorized through the Economic Co-operation Administration and the Mutual Security Agency.

The crux of the present situation is to devise means of setting multilateral trade on a firmer and more permanent foundation, to enable all countries to pay their own way and turn "Trade not Aid" from a slogan to a reality.

Stable Currency Relationships—The importance of stable currency relationships cannot be over-emphasized for any trading nation. The recognition of this fact led to the establishment of such international bodies as the International Monetary Fund. Whatever the shortcomings of that organization have proved to be, it represents an attempt to achieve and maintain balanced currency relationships and to provide for an orderly method of making such adjustments as become from time to time necessary.

Some freedom and flexibility are certainly desirable; and the Canadian Government has been widely commended by setting a bold example and "freeing" the Canadian dollar. The circumstances in which it did so were favourable. The subsequent climb of the Canadian dollar to a premium position over the United States dollar has testified to the general strength of our

own economic position. One result, however, has been to give a sharp reminder to all Canadian exporters to the United States market that it is they who must pay the price of the premium.

It is also a reminder of the additional hazards which would soon be created in international trade without reasonable stability in currency relationships.

Currency Convertibility—If multilateral trade is to be established on a satisfactory permanent basis, not only must currencies be reasonably stable but they must be freely convertible.

Unless the sterling-dollar gap can be bridged, we must resign ourselves to seeing the western world break up into trading "blocs".

To discuss this intricate and complicated question in all its phases is far beyond the purposes and scope of this submission.

Our purpose is to focus attention on one particular but important aspect of the problem, namely the role of gold in international trade.

It is our view, not that gold can of itself solve this problem, but that no satisfactory solution will be found unless the proper importance is attached to gold and its function and steps are taken to permit it to perform that function adequately.

The Role of Gold in International Trade—Gold is the traditional and the only universally acceptable medium of international exchange, as well as the common measure of value to which national currencies are related.

Because gold has been withdrawn from general circulation among most countries of the western world, its role as an international medium of exchange is commonly forgotten.

In effect, the International Monetary Fund established, with certain important limitations, an international gold exchange standard.*

Trade balances are settled in gold. One of the chief difficulties which multilateral trade is now experiencing is that national treasuries of countries other than the United States have not adequate supplies of gold. And for this the principal reason is that gold has remained priced at the figure at which it was pegged by decree of the President of the United States in 1934, at \$35 (U.S.) per fine ounce.

One result has been the decline of the gold mining industry in all parts of the world. The question is of vital concern to Canada as the world's second largest gold producer.

All but a few of the 59 surviving gold producers (compared with 140 in 1941) are being maintained in existence by direct aid from the federal government. It is no exaggeration to assert that Canada is in serious danger of losing completely an industry which in former years accounted for much prosperity and progress and which pioneered in the opening up and the settlement of the Canadian North where its mineral wealth is found.

Gold mining is a depressed industry everywhere and governments have resorted to various means of assistance.

Limited access under strictly controlled conditions has been granted to the "premium" markets. The restrictions however are such that this has not afforded help to any but a few Canadian producers.

Diversion of Gold from National Treasuries—Yet in spite of all attempts to prevent gold from getting into private hands, only a small percentage of the world's newly mined gold has been finding its way to national treasuries.

* "There is nothing in the plan (i.e. the Bretton Woods Agreements) that in any way prejudices the prestige or usefulness of gold as a means of settling international balances. Gold is still the international exchange medium par excellence." W. T. G. Hackett, Economic Consultant, Bank of Montreal.

According to an analysis given in the Twenty-Second Annual Report of the Bank of International Settlements (June 1952) some 85 per cent of newly mined gold is reaching destinations other than national treasuries. The Bank's report presents the following tabulation:

	millions of U.S. dollars 1951
Gold production (exclusive of U.S.S.R.)	844
Increase in official gold reserves	130
"Disappeared" gold (estimated breakdown:	
industrial uses: 220	
private hoarding: 494	714

Private Ownership of Gold

It would create a far more satisfactory and healthy situation if governments openly acknowledged that there was a demand for private ownership and possession of gold and that citizens had a legitimate right to purchase and hold it. The demand is especially strong in those countries whose citizens have experienced the devaluation of their currencies and therefore desire to possess something of intrinsic and permanent value.

In the meanwhile gold is not being produced in sufficient quantity either to satisfy private demands or to meet the requirements of governments. The Inadequacy of National Reserves

We would draw attention to a report entitled "Measures for International Economic Stability", prepared for the Department of Economic Affairs of the United Nations by a committee of internationally famous economists, headed by Dr. James W. Angell of Columbia University (November 1951).

While the whole report merits careful study, we draw notice in particular to the contents and arguments of Chapter IV, "International Monetary Reserves".

Having pointed out that international trade cannot be maintained without periodic tightening of fiscal and monetary policies or of trade and exchange restrictions, unless the trading countries have adequate monetary reserves, the report proceeds:

Section 109—"Our examination of existing reserves has convinced us that they are not in general adequate. The total reserves of countries other than the United States are now much smaller in relation to trade than they were before the war. Their total gold and official dollar holdings at mid-1951 were only one-fifth higher than they were in 1937. But their total imports, measured in dollars, have recently been running at an annual rate more than two and one-half times as great as in 1937, largely the result of the rise in prices. Their imports from the United States have been nearly five times as great. Their reserves can thus serve as a buffer only against much smaller proportionate fluctuations in trade...

117. "Methods of Increasing Reserves—One method would be to raise the price of gold uniformly in terms of all currencies, as provided for in the Articles of Agreement of the Fund. Measured in dollars, the official price of gold is no higher than before the war, while prices in international trade have doubled. The effectiveness of a given gold reserve as a buffer against trade fluctuations has been halved. Increases of 25, 50 or 100 per cent in the gold price would raise the reserves of countries other than the United States by some 3,000, 6,000 or 12,000 million dollars.

"118. It may be that a higher gold price would set in motion inflationary forces which would be undesirable save at a time of deficient effective demand.

It is, however, possible by appropriate banking policy to prevent greater reserves from affecting national monetary conditions, at least where the banking system is sufficiently developed. Higher reserves would, moreover, increase confidence in many currencies that have suffered repeated devaluations in the last twenty years. If such confidence reduced the fear that every exchange crisis would necessarily lead to devaluation followed by higher prices, the prevention of inflation would be facilitated.

"119. A higher gold price would, of course, stimulate gold production, and this would in a sense be wasteful. But only a small fraction of one per cent of the world's resources would be involved, and the loss would be offset many times over if higher reserves reduced the danger of international crises, trade restrictions and unemployment."

Having suggested that increasing the price of gold is one method of creating more adequate national monetary reserves, the report refers to political difficulties which might be encountered. What these difficulties are will be familiar to any who have followed many official and unofficial expressions of opinion in the United States.

The thesis that an increase in the price of gold is an indispensable condition of economic and commercial health in the western world is brilliantly argued by the South African economist, Dr. W. J. Busschau, in his book entitled "The Measure of Gold", (1949).

It is our belief that an increase in the price of gold is now coming within the range of practical politics.

It has been reported that several approaches have been made to the United States government on the question during recent years by the British, French and other governments.

We have no knowledge of the proposals which, resulting from the Commonwealth Conference of last year, are now under discussion between the United States Administration and the British and Commonwealth countries.

But we believe that an increase in the price of gold is one proposal which must have serious consideration.

Hon. Mr. EULER: What are the objections of the United States?

Mr. WANSBROUGH: The objections of the United States have pretty steadily increased and are, first, that an increase in the price of gold might well have an inflationary effect upon their domestic economy which they are not prepared to face; secondly, that it would lead to an equitable distribution of benefit—a greater benefit going to those countries which happen to be gold producers or happen to have the larger supplies of gold; thirdly, they are not at all sure whether it might not be putting an adequate weapon in the hands of Russia. Those are the usual stated objections.

The value of all gold stocks held by all countries would thereby be proportionately increased, and the United States would be in a position to give supplementary aid in the form of gold to countries who need it to achieve and maintain currency convertibility.

It is for such reasons as these, as well as for the welfare of an important Canadian industry, that this Association has consistently urged the Government of Canada to associate itself with other governments in pressing for an increase in the price of gold.

The proposal is not advanced as a panacea for the world's ills. But, to quote Dr. Busschau, "it is in the interests of all friendly nations to trade freely together in multilateral system and, if technical adjustments such as a rise in the price of gold can hasten the return of such an open system, all men of good will must examine the suggestions".

British Interests in Canada: During the past two years and particularly of recent months many important and highly competent British mining and

exploration companies have undertaken activities in Canada. This has been made possible by a more liberal policy on the part of the Bank of England and the British Government.

It is suggested that ways and means be considered of giving all encouragement to such enterprises. Canadian resources will be soundly developed by such companies, and the dollars so earned will stimulate and sustain Canada's trade with Britain and other countries of the sterling area.

Canada's economic ties with the United States are already very strong. Anything that can be done to fortify our economic bonds with Great Britain will contribute to a sound balance and diversification of interests and strengthen Canada in her role as North American partner in the British Commonwealth.

The British Market: It is of course of the greatest importance that Canada maintain a foothold in the United Kingdom market for its non-ferrous metals, particularly copper, lead and zinc. It is therefore a source of satisfaction to learn that as a result of recent conferences British officials have agreed to an extension of the list of materials which can be imported into Great Britain on open general licence; it is understood that copper will be one of the items on which restrictions will be removed at an early date.

There always remains the possibility that if this resulted in an embarrassing drain in dollars, restrictions might have to be imposed. But it is clear that the British Government is doing all in its power and that we should be prepared to reciprocate by all means at our command, and in particular to press for any measures which may hasten and promote currency convertibility.

Conclusion: The mineral resources of Canada have become a factor of world importance. We wish to see them used not only to build up Canada itself but to contribute to the strength of the free world, wherever they may be required.

As a great trading nation, Canada cannot prosper unless firm foundations of multilateral trade are secured and assured.

As steps toward this end, it is necessary to continue to negotiate for the removal of obstructive trade barriers; to encourage investment in Canada by countries of the sterling area; to maintain stable currency relationships and to raise the price of gold, as one measure towards creating adequate national monetary reserves and currency convertibility.

It is suggested that by moving and influencing other countries to move along these lines, Canada will not only advance its own interests but will contribute substantially and constructively to the promotion of international trade and the economic prosperity of nations of the western world. (See Appendix C).

The CHAIRMAN: Do any honourable senators wish to ask questions of the witness?

Hon. Mr. TURGEON: Have any figures been given to the world at all since the end of the last war as to the production of gold in Russia and Russian-held territory?

Mr. WANSBROUGH: Not to my knowledge, senator, have any been given in which anybody puts any reliance. I saw a figure recently that suggested that Russia's gold production was 2 million ounces per year. Ours is something like 4½ billion ounces of gold per year; but I do not believe anybody would really put any credence in any such figures, which are really not more than guesses.

Hon. Mr. KINLEY: How do you account for the American tariff restrictions on base metals that they do not produce themselves? What would be their object?

Mr. WANSBROUGH: Mr. Chairman, this is a point upon which I should like to call in reinforcements.

The CHAIRMAN: Certainly, sir.

Mr. WANSBROUGH: I should like to ask Mr. Bateman, who is more familiar probably than anybody else in this country with these questions, if he would care to answer that question.

The CHAIRMAN: Will you come forward, Mr. Bateman? Would you ask the question again, honourable senator?

Hon. Mr. KINLEY: How would you account for the American tariff barriers against base metals that are not produced in their own country? Their policy is to bring in the raw materials at the lowest possible rate, I understand.

Mr. BATEMAN: Well, in all the base metals they are important producers.

Hon. Mr. KINLEY: Not in nickel, are they?

Mr. BATEMAN: Except nickel, yes. They are not self-sufficient in the primary metals, copper, lead and zinc; they have to import a certain percentage of their requirements—approximately 30 per cent—in order to meet their own needs.

There has, however, been a decline in the price particularly of lead and zinc. The desire to protect their own industries arises particularly in the west from some of the high cost producers. True, in most cases their production in the United States is not a very important factor; but, as you probably know, the pressure groups in the west—that is the silver block, the wool block and the mining block—all work together. The theory behind this is to protect their own industries.

I do not think that special consideration has been given to the adverse effect upon American industry. For instance, in these proposals under the Simpson Bill, they want to establish a base price of 15½ cents for lead and zinc, which some of them believe is the minimum price to operate their properties profitably. The present price of zinc is 11 cents; so that would add another 4½ cents per pound to the cost to the American consumer. With the American consumption somewhere in the order of more than a million tons a year, that would mean an added cost to the consumer of some \$90 million.

The effect of this proposal on the sliding scale is rather extraordinary in some respects. In the case of zinc concentrates, for instance, the present price of domestic zinc in the United States is 11 cents, and the duty on zinc concentrates is 3.99 cents per pound, but, I would point out, our producers realize only about 3¾ to 4 cents a pound. You can readily see that the duty would cut off the shipments of concentrates to American smelters, which cannot operate without these important concentrates.

Hon. Mr. KINLEY: Is there perhaps not an element of protection for Canada in these duties?

Mr. BATEMAN: No.

Hon. Mr. KINLEY: For instance, Canada is right next to the United States, and if we got over without duty some other country might do the same thing.

Mr. BATEMAN: No; the United States has no consideration for Canada in these things. They are thinking only of a limited group in their country.

Hon. Mr. KINLEY: How do they deal with tin?

Mr. BATEMAN: Tin is free.

Hon. Mr. KINLEY: That comes mostly from South America, does it?

Mr. BATEMAN: From the Far East and the Middle East.

Hon. Mr. HORNER: Do they get any from Malaya?

Mr. BATEMAN: Yes; they have to buy from all the tin sources of the world, Malaya, Indo-China and all the other producing countries.

Hon. Mr. KINLEY: But they do not give us a quota on which there is a lower tariff?

Mr. BATEMAN: No.

Hon. Mr. KINLEY: They do that with some products in order not to interfere with their own production.

Mr. BATEMAN: There is no quota and there is no consideration for Canada in these proposals. The fact that we are a close neighbour and handy to the United States, and it would be cheap and easy to ship, is not a factor.

Hon. Mr. EULER: There is a small duty on nickel, is there not?

Mr. BATEMAN: One and a half cents a pound.

Hon. Mr. EULER: That does not really hurt Canadian industry very much, does it, because we have to have our nickel anyway and it gives them a bit of revenue.

Mr. BATEMAN: That is true. Of course there is really no more excuse for the tariff on nickel, than there would be for a tariff on tin.

Hon. Mr. KINLEY: Of course the nickel industry in this country is, I suppose, owned by American interests.

Mr. BATEMAN: No, no. For instance, I am a shareholder myself, and I am a Canadian.

Hon. Mr. HAIG: I am a shareholder too.

Hon. Mr. KINLEY: How big a factor is bauxite in the manufacturing of nickel in Canada?

Mr. BATEMAN: That has to do with aluminum.

Hon. Mr. KINLEY: What about the Kitimat development at British Columbia?

Mr. BATEMAN: That too is aluminum.

Hon. Mr. HAIG: It is Sherritt-Gordon that produces nickel.

Hon. Mr. BURCHILL: Mr. Chairman, this brief is an excellent document, and we are very much indebted to these gentlemen for coming here and giving us information that every Canadian should have. I am interested in the remarks of the witness on the effect of gold on international currencies. Some of us remember the days when the pound, for instance, was tied to gold. Is that not so?

Mr. BATEMAN: Yes.

Hon. Mr. BURCHILL: We have moved from that until today we are not interested in Britain's reserves of gold; all we want to know is how many Canadian or American dollars she has. Gold seems to have disappeared entirely.

The CHAIRMAN: I think Britain has a lot of gold reserves today.

Hon. Mr. BURCHILL: But what effect has the national gold reserves on the currency of any country today?

Hon. Mr. HAIG: If they have enough gold they can buy our goods.

Mr. BATEMAN: I have my own ideas on the question, but I would not be prepared to express them.

Hon. Mr. TURGEON: Bearing out what Senator Burchill has said, it will be remembered that a few years ago, shortly after the announcement of the Marshall Plan for European aid, the then Foreign Minister of Great Britain suggested that the best way to give aid would be to lend to the United Kingdom and other countries. How does that relate to the question asked by Senator Burchill?

Mr. WANSBROUGH: Might I call for further reserves, Mr. Chairman, in the person of Mr. Birks, who is prepared to deal with the gold question.

Mr. R. T. BIRKS: Mr. Chairman, I am glad to have the opportunity of saying what I know on the gold question. During the war, you will recall that a certain British economist stated that there were only two people who understood international finance. He was one, and he was not sure who the other one was.

On this question of gold, I can look back to the time when the Right Honourable Mr. Bennett told us gold miners that we had saved the national credit of Canada, because gold was one commodity that could be sold in the United States in almost endless quantities; they would take it at \$35 per ounce without any restrictions, quotas or tariffs. Speaking as a gold miner, and seeing the way trade doors are being closed against us, I have a feeling that maybe gold miners will again help to save the credit of Canada in the not-too-distant future.

One complaint we have is that we do not want to sell gold at \$35 an ounce when it may have a real or contingent value of \$52 or \$55 an ounce, which is the price which gold is commanding in a lot of the markets of the world today.

In this hemisphere we are not used to gold, in the sense that restrictions have been placed upon the holding of gold; but when we get to Europe we find that the French peasants, for example, are terrific hoarders of gold. It is estimated that they hoarded about half a billion dollars worth of gold last year, and the further east one goes the keener is the demand for gold.

It is not generally known—although you gentlemen here are well aware of the fact—that the Standard Oil Company of New Jersey has to pay Iraq and Arabia in gold sovereigns. They will not accept any other currency; and it is reported that one of the sources of dispute between Iran and Great Britain is that Iran wants gold sovereigns, which some of her neighbors are getting, and which Britain at the moment is not prepared to pay. So that we feel that gold has a great value and is a commodity which under normal conditions can be exchanged freely between countries. Any country will accept it without any tariff, without any regulation. You get an immediate credit, and you can buy whatever you like in that particular country.

The CHAIRMAN: You can buy any currency in the world with gold.

Mr. BIRKS: You can buy any currency in the world with gold. Yes.

The CHAIRMAN: It is a sure thing. You have a sure bet.

Mr. BIRKS: I have one suggestion to make to the committee. At the present time a certain number of gold miners are allowed to export gold. We have to go through what we may term a lot of skullduggery.

We take refined gold: it has to be debased to 22 carats, under the nominal plea that it is going to be used for industrial purposes. It is shipped to Switzerland, then refined back to its original fineness of 99·8 per cent; then it is smuggled into France, and sold mostly in France. However, recently there has developed a tremendous practice of retaining it in Switzerland and turning it into British sovereigns and French napoleons and Mexican \$10 pieces. But the smugglers—shall we call them—who are doing that are then receiving about \$50 to \$60 an ounce for their gold, because the minted coins have that much more value. It is also significant—if you read the *Wall Street Journal*—that the government endeavoured to prosecute these gentlemen for counterfeiting, and the Swiss courts and the Italian courts said "They are not counterfeiting. Gold is not currency. As long as they are delivering sovereigns of the proper weight and fineness it is not counterfeiting in any way". As a matter of fact, if you tendered a sovereign in

England to buy a hat you would likely be arrested; so it really is not currency. The result is that this association, shall we say, of international smugglers are making anywhere from \$10 to \$15 on the gold that is being sold by Canadian miners at the present time, and they say there is an absolutely unlimited market for it, whether it is in India, or even in China, for it is being shipped in large quantities to China at the present time. It must be borne in mind that all these European countries have no currency. They do not trust paper. And in the Far East the gold coin is a real possession. That is the reason we think there should be a higher price for gold.

If I might add one constructive suggestion, Mr. Chairman—

The CHAIRMAN: Certainly.

Mr. BIRKS: I would like to suggest for the consideration of this committee that we celebrate the Coronation year by coining discs of about one ounce,—call them “Elizabeth” if you will—certify that they are one ounce of pure gold, so many milligrams, and let us have a free market, so that people can come in here and buy them,—in fact, outsiders, resident and non-residents. Have a free market for gold. My impression is that they would sell for about 50 per cent above the regular price, because gold is in unlimited demand; and as a gold miner I am quite satisfied to stand or fall by a free market in the commodity, without any restrictions as to ownership or export or anything of that kind.

Hon. Mr. EULER: Could you do then without a Dominion subsidy?

Mr. BIRKS: Very easily, I hope.

Hon. Mr. KINLEY: They are doing that with silver. They are giving “Elizabeth” silver dollars as a premium now.

Mr. BIRKS: Yes. I would hesitate to produce coins of the value of gold dollars, that is to say \$35 or \$50 gold pieces. My suggestion would be that we just call them “Elizabeths” and make sure that they are one ounce of gold, certified by the Dominion of Canada or some other responsible authority, and let the people hold them.

Hon. Mr. KINLEY: The question was asked of me in the north country, why cannot we coin gold? What harm could it do to the country? I could not find an answer.

Mr. BIRKS: We do not know where a free market would put us. But if we coined a disc of this kind, so many milligrams, I think sooner or later the government would be glad to come and fix a fair price for gold. It might be best for all parties concerned. In the meantime we would gain what that commodity is worth, and it would bring, I am sure, all the hoarders in the world who are now hoarding gold definitely into the Canadian market, and we would have a free market here for gold that would be of world-wide dimensions.

The CHAIRMAN: In other words, bypass the smugglers?

Mr. BIRKS: Bypass the smugglers. That is exactly what we would do, sir. We would bypass entirely all these people who are now dealing in gold. I do not think that the mines are getting really a free market in gold. I think it is being operated by something approaching a cartel, or something to that effect. I am told that in France, where the biggest market is, they work somewhat on the principle of Lloyd's. When a gold shipment is available, one dealer says, “I will take 3 per cent”, another dealer says “I will take 6 per cent”, and so on. If we are dealing with the same people at all times I doubt if there is a free market for gold in the gold bar. Of course it takes an assayer to say whether a gold bar is 99-9/10ths pure. If you had a coin, a dics and tossed it on the table, everybody would know it was pure, and take it accordingly.

Hon. Mr. HORNER: What action would the United States take supposing we were to implement the suggestion you make, of coining some gold?

Mr. BIRKS: It is against the rules of the International Monetary Fund.

Hon. Mr. HORNER: We are all tied up.

Mr. BIRKS: But, frankly, I do not place much confidence in the International Monetary Fund, because they are now permitting us to go through this skullduggery, debasing the gold, and having it refined, and finding its way into France. They are just putting their blind eye to the telescope. They know it is being done.

Hon. Mr. HORNER: But if we attempted to do it, the United States would threaten or institute all kinds of reprisals, and in effect forbid us to proceed in that way?

Mr. BIRKS: It is just a question how long we are going to be tied to the chariot wheels of the United States. As I said in a deputation to the Cabinet at one time, "I would like to know which of these gentlemen has to be elected in an American constituency." They did not have any answer to that; they have to be elected in Canada.

The CHAIRMAN: The United States alone do not run that Monetary Fund.

Mr. BIRKS: The United States have the biggest interest in it. Note that Chancellor Butler, Anthony Eden and Winston Churchill are all in favour of a higher price for gold. South Africa, of course, is in favour of it; and at a recent conference of the International Monetary Fund in South Africa, South Africa raised the question, and Secretary Snyder at once vetoed it. Their arguments, as Mr. Wansborough very wisely pointed out, are three. First they say that it would be regarded as inflationary in their country, and they are a little concerned about the advantage it would give to the gold-producing countries. We must bear in mind that the British Commonwealth of nations is the greatest gold-producing group in the world. This group includes such gold-producing countries as South Africa and Canada.

Hon. Mr. HORNER: And Australia.

Mr. BIRKS: Yes. Russia is mentioned here, and from the information I have about that country I believe the figures mentioned by Mr. Wansborough are likely correct. But we have no idea of the cost. We know that cost does not mean anything to Russia. If they say they want one ounce of gold it would not make any difference to them whether it cost them \$60 or \$70. A short time ago Russia announced that they were going to begin some kind of a gold ruble. They wanted to get on the gold standard. My own impression is that the quickest way to make Russia give up is to have free gold, for I do not think she could stand the pressure.

Hon. Mr. KINLEY: The United States has an enormous supply, has she not?

Mr. BIRKS: \$23 billion.

Hon. Mr. KINLEY: The United States would be in the circle of nations that would benefit.

Mr. BIRKS: They would benefit the most because unquestionably they have the largest supply of gold in the world.

Hon. Mr. KINLEY: The United States money is the only money that is redeemable by gold.

Mr. BIRKS: There is the Swiss franc.

Hon. Mr. KINLEY: Why would Canadian money not be redeemable by gold? Would that be under an international agreement?

Mr. BIRKS: American money is not actually redeemable in gold. You have gold bars to back up the money, but you cannot get ten or twenty dollar pieces in gold. They would sell you gold for commercial purposes after they investi-

gate very carefully that it is for commercial purposes. By way of another subterfuge they make long gold chains and gold elephants and ship them off to Bangkok, Malaya, and other places, and get fancy prices for them.

Hon. Mr. GOVIN: What is the reference in the brief to countries which are permanent markets?

Mr. BIRKS: You will notice almost every newspaper carries a report from Paris, France, where the price of gold is now fixed. The price has been as high as \$39 or \$40 an ounce recently, but it has slumped to \$37 an ounce, which is still \$2 an ounce above what we pay for it here. Our government pays us in the equivalent of United States funds, so that gold mines, for example, have been taking a discount on their product for the last few months. We get paid \$35 an ounce less the current week's average rate of discount. For those of us who have long memories, this is fine so long as they will pay us in American dollars when the exchange swings the other way. At that time we will be glad to take the benefit.

Hon. Mr. KINLEY: Why should the United States fix the price of gold when they are not a producer? Should not the producers do that?

Mr. BIRKS: Our government and all governments were under the impression that the United States was the only place where you could ship in gold bricks in quantity and get American dollars for them. I understand that our government had a rude awakening when they found out the demand for this free market. When we asked the Minister of Finance to give it to us particularly for our base metal mines, which did not share in the gold subsidy, we were told "You will find the gold market is a snare and delusion." That is not the case. They shipped over a million ounces last year at anywhere from 5 or 10 cents above the price paid by the Mint. The government was somewhat surprised to find the extent and width of that market.

Hon. Mr. CAMPBELL: Mr. Birks, is it not almost essential that there be a minimum price for gold and a ready market available?

Mr. BIRKS: I would say so, if you had a really free market. I think we could stand and fall on a free market because countries would buy gold in order to correct their exchange position. For example, in that organization of western powers including Luxembourg and Belgium, there is a provision that the balance at the end of each month has to be paid in gold. They have to have a balance for it.

Hon. Mr. CAMPBELL: That is pretty revolutionary thinking because we have always had a fixed price of gold in relation to the value of the currency of the country.

Mr. BIRKS: We have always fixed it. In order to prevent these gyrations of currency, if we had a fixed price of gold at a fair price you would not have a wide fluctuation of gold, and it would be much better. There was a time when the sovereign was worth 4.86½ in gold and the United States Eagle was fixed at \$10, and they just valued them back and forth in terms of each other, depending upon the vicissitudes of trade and commerce from month to month. I think that would prevent the wide gyrations in exchange which present difficult problems. You have to gamble on exchange now and it is hard to carry on business under these conditions. Frankly, I believe the ideal condition would be to fix a higher price for gold because commodity prices have risen nearly 200 per cent. Since the price of gold was fixed at \$35 an ounce. An ounce of gold will buy only about half the number of bushels of wheat that it would in 1935. I think the ideal arrangement would be to have a fixed price for gold all over the trading world, and if we fixed it high enough it would help good old Great Britain, for instance, to fix her own gold resources. Our own government is to be congratulated, for it has more gold on hand now than

at any time since confederation. In days gone by, we used to ship gold to Washington before the bricks were cold, but nowadays Mr. Abbott is holding on to his gold religiously.

Hon. Mr. KINLEY: He does not need it now.

Mr. BIRKS: He may if the exchange goes against us.

Hon. Mr. KINLEY: The story we were told about the export of minerals is not quite right. I think it looks very good.

The CHAIRMAN: There has been no evidence of Russia offering gold to the free world.

Mr. BIRKS: Not that we know, but we do know that when Russia overran all the western countries the first place they stopped was the National Bank. They picked up all the gold bars and all the gold coins that could be found, and all the European countries they have overrun have been stripped of all their gold. That is one way we have of arriving at their treasury, because we know how much they stole from Germany, Czechoslovakia, and Austria. They just backed their trucks up to the First National Banks, and with the threat of machine guns, they cleared all the gold out. That gold is now in Russia.

Hon. Mr. CAMPBELL: Are you familiar enough with the gold question to be able to say what effect an increase in the price of gold would have upon the economy of the United States under present conditions where the United States dollar is not definitely tied to gold?

Mr. BIRKS: I am not, sir, but I think the economic committee have reported that if it were properly handled there would be no inflationary tendency. That is contained in the report by the committee of experts of the United Nations. We feel that it would not disrupt the American economy.

Hon. Mr. CAMPBELL: I never quite saw how it would, but I would like somebody to elaborate on it.

Mr. BIRKS: There is one thing that might be said. There was a certain well-founded rumour that Great Britain and France and the other countries proposed to the United States that they revalue their gold from 23 billion— increase it 50 per cent, which would be about 11 billion, and give them the 11 billion for their foreign aid, and so on, and then it would cost the American taxpayers nothing.

Hon. Mr. EULER: That gold does not all belong to the United States, does it?

Mr. BIRKS: The 23 billion does. For our figuring, 23 billion belongs to them. Incidentally, they have not gained anything in the last year or two, have they, Mr. Wansbrough?

Mr. WANSBROUGH: No.

Hon. Mr. TURGEON: I understand that the United States is afraid that Russia might start an influx of gold. Supposing the price went up and the United States refused to buy new gold, what would be the effect of that?

Mr. BIRKS: I would think that the United States should not be saddled with the responsibility. I think the prices should be so many shillings in England, so much in the United States and so much in France.

Hon. Mr. TURGEON: If the United States refused to buy, would the other countries be afraid to buy?

Mr. BIRKS: I don't think so, sir. I do not see why they should. It is the best currency in the world. For example, I do not see why Canada should hesitate. There is another story, that when the United States was complaining about the price of tin and rubber in the Malay Peninsula the suggestion was made that they offer gold. They did make a tentative offer of gold, and when they found the terrific price gold commanded they withdrew the offer right away, because in the far east and in the north east the people like gold coins,

they have not got banks, and a dowry for a daughter, and an accumulation of gold coins to wear around her neck, and things of that kind, appeals to them; and the French are the greatest hoarders of gold in the world, and they have reason to, because they have seen their franc go down to a nickel.

Hon. Mr. KINLEY: I had a Polish man working for me; he was a prisoner in Germany, and afterwards got to Siberia and then to Greece. One day he said to me, "Mr. Kinley, is there no gold?" I said, "Gold in this country—that is only a nuisance." "Oh", he said, "gold is gold, Mr. Kinley." I always think of that. He knew.

Mr. BIRKS: It is a good point, and another weakness is that we take our gold here and put it in one spot, whether Fort Knox or Ottawa, and if a foreign country took over they would take that gold; but they didn't in France because the peasants put it under apple trees and everywhere else, and that is one reason they came back because they had the cash and the gold immediately available.

The CHAIRMAN: We take it out of a hole where we can get it and put it in a hole where we can't get it.

Hon. Mr. BURCHILL: From the gold mining standpoint, you would be willing to take your chance if all restrictions were removed, and go ahead and sell it?

Mr. BIRKS: Give us a free market and we will stand or fall. We don't expect any particular preference. We should stand or fall. If some are allowed to hold it, non-residents are allowed to take it out, and buy it, and so on, I think the industry as a whole would be perfectly satisfied, and I think it would be a grand thing for the country.

The CHAIRMAN: Any other questions?

Hon. Mr. CAMPBELL: I had a question to ask on the other metals. Mr. Bateman, I notice in the figures in the index of the brief presented here that we have substantially increased our percentage of exports of base metals to the United States in 1952 as compared to 1937 and 1939.

Mr. BATEMAN: Yes.

Hon. Mr. CAMPBELL: And that the percentages to the U.K. have fallen off.

Mr. BATEMAN: That is right.

Hon. Mr. CAMPBELL: I think you said that we got about 30 per cent of the United States business.

Mr. BATEMAN: No, I said the United States required imports to the extent of 30 per cent of their requirements.

Hon. Mr. CAMPBELL: What does our business with them amount to?

Mr. BATEMAN: I would think about 50 per cent of their import requirements.

Hon. Mr. CAMPBELL: And what about the U.K.?

Mr. BATEMAN: Oh, the U.K.—their imports from Canada would be about 25 per cent of their requirements.

Hon. Mr. CAMPBELL: What about Canada?

Mr. BATEMAN: That is 25.

Hon. Mr. CAMPBELL: Is there any significance in the change of figures between 1937 and 1939 as compared to 1952 shown in this appendix?

Mr. BATEMAN: Well, there is this, that from 1937 to 1939 we had practically no exports to the United States. For instance, we did not ship a pound of copper to the United States at that time. Seventy per cent of our exports of copper went to U.K. It was an unfortunate thing to have so many eggs in one basket, and it is correspondingly unfortunate to have ourselves so dependent upon the United States at the present time.

Hon. Mr. KINLEY: We do not produce enough steel for our own use in Canada, do we?

Mr. BATEMAN: No.

Hon. Mr. KINLEY: How much do we import from the United States?

Mr. BATEMAN: I am not an authority, but I think somewhere around a million to a million and a half tons.

Hon. Mr. KINLEY: What per cent would that be of our production?

Mr. BATEMAN: We produce roughly 4 million.

Hon. Mr. KINLEY: Therefore, we require 25 per cent?

Mr. BATEMAN: Roughly.

Hon. Mr. KINLEY: Of course, we could not expect to produce on a larger scale in this country because of the limited market.

Hon. Mr. CAMPBELL: Is the price that we receive in the United States for our base metals more favourable than the U.K. price?

Mr. BATEMAN: Copper, we have been receiving a little more in Great Britain than we have in the United States. With zinc and lead we receive more in the United States.

Hon. Mr. CAMPBELL: What about the competition in so far as the British market is concerned?

Mr. BATEMAN: There has been the reopening of the London Metal Exchange. London has again resumed its position of making the market.

Hon. Mr. CAMPBELL: The world market:

Mr. BATEMAN: For the free world.

Hon. Mr. CAMPBELL: Yes, the world market.

Mr. BATEMAN: The world market.

Hon. Mr. CAMPBELL: And that may have some very definite significance, may it not, on our markets and price?

Mr. BATEMAN: Yes.

Hon. Mr. KINLEY: With regard to iron ore, when will the development in the eastern part of Canada be producing?

Mr. BATEMAN: I think probably some time next year, will it not?

Mr. WANSBROUGH: By 1954 is the motto. It is expected to start shipping iron ore in 1954.

Hon. Mr. KINLEY: Then we will be exporters of iron ore, probably?

Mr. WANSBROUGH: We are now.

Hon. Mr. KINLEY: What is that going to do for us?

The CHAIRMAN: That hardly comes under metals, does it?

Mr. WANSBROUGH: We are getting a little out of our range, Mr. Chairman.

Hon. Mr. KINLEY: We were talking of exchange, and I was thinking of that feature.

Hon. Mr. CAMPBELL: Mr. Chairman, may I ask one final question of Mr. Bateman?

The CHAIRMAN: Yes.

Hon. Mr. CAMPBELL: In your opinion is the opening of the metals market in London likely to be less beneficial to us than the policy of bulk purchasing of the past.

Mr. BATEMAN: I would think from the long-range point of view, the establishment of free markets is the thing to look forward to.

Hon. Mr. HAIG: Like Senator Burchill I favour the report we have been given very much; I do not pretend to have the information which it purports to give us. My problem is that the brief offers no solution to the matter.

Hon. Mr. EULER: It suggests a free market.

Hon. Mr. HAIG: But I am thinking of it from the American point of view. If I were an American why would I open up to give Canada a market, if my own people were not going to benefit? I say there has been no suggested solution for our problem. I have attended most of these meetings, and in each presentation which was made our problem was clearly outlined—and this presentation today is perhaps the most able of them all—but such solutions as were offered could not come from Canadians, but from somebody else over whom we would have no influence.

Mr. BATEMAN: Do not forget that the national security of these two countries is dependent upon an adequate supply coming from the metal industry.

Hon. Mr. HAIG: I agree with that.

Mr. BATEMAN: The experience of the war certainly showed us that the great portion of those supplies could be gotten with assurance only from North America, and particularly from Canada.

Hon. Mr. HAIG: I agree with that also.

Mr. BATEMAN: If the duties are increased it raises the cost to the United States, and we destroy the opportunity of developing a market for supplies necessary to meet their requirements; and further, you add a permanent burden to the people of the United States.

Hon. Mr. HAIG: I agree with all that, but it is not a solution to our problem. I do not happen to be a member of the United States Senate and you are not a United States citizen and therefore not capable of influencing their political philosophy. How are we to influence them politically so as to prevent them from doing two particular things which they are now doing? First, whenever a primary product of any kind threatens to compete with the American market, there is a loud cry and Congress then invokes a law which shuts out that commodity. And secondly—

Hon. Mr. MACLENNAN: And we can do nothing about it.

Hon. Mr. HAIG: That is what I say. I want some of these gentlemen to come forward and tell us how we are to meet the problem.

I see that the Prime Minister of Canada is going to Washington to confer with the President. Now, I am not sure that the President has as much power as some people think he has. The system of government in that country weakens the control of the executive by reason of the fact that the executive is not in a position to help control the vote. One could not imagine the House of Commons here voting for something the Prime Minister did not want. If that happened, he would be out of office; but the United States Senate have been doing that right along for the past four or five years, and are still doing it.

What do you gentlemen want us as legislators to do about this problem? And I should tell you that we are just as anxious, if not more, than you are to find a solution. Telling us the facts will help, but it is not enough. You are experts in this line: Now tell us what you would have us do.

It has been said that we have to get 15½ cents a pound for zinc and lead; therefore, we should put on a tariff to keep the price up to that figure. I note that one member of the House of Commons has offered a solution of the problem.

Hon. Mr. EULER: That is a matter of politics, and these gentlemen here are not politicians.

Hon. Mr. HAIG: Everybody is a politician.

Hon. Mr. MACLENNAN: These men are no more politicians than we are. What can they do that we cannot do?

Hon. Mr. HAIG: I want to know what suggestions they have to make.

The CHAIRMAN: They have told us one commodity that the United States does not wish to keep out—gold.

Hon. Mr. HAIG: But they want to take it at a fixed price.

The CHAIRMAN: No; the Monetary Fund fixes the price.

Hon. Mr. HAIG: It is really the United States that does it. Snider, the Treasurer, told the Monetary Fund what it could do.

The CHAIRMAN: Has the United States a majority of directors on the Monetary Fund?

Mr. BIRKS: I think they have a majority of the money in the fund—that is what shouts.

The CHAIRMAN: Have they more money than the rest of the countries put together? We are committed for \$300 million.

Mr. BIRKS: I think they have.

Mr. WANSBROUGH: No doubt they have a dominating voice.

Hon. Mr. HAIG: Mr. Chairman, the sooner we in Canada realize that the United States is today the greatest nation in the world from our point of view, the better off we will be. The next problem is how to influence them to realize their world responsibility. I am one of those who believes that Russia is playing a shrewd game: She is going to try to wreck us by breaking us.

You gentlemen tell us any suggestions you have for a solution of the problem. Gold is one. Has anybody else any idea?

The CHAIRMAN: I should like to raise another point with Mr. Birks. I notice that Mr. Snider of the United States has warned the Fund many times about Communists. No notice was taken of his warnings until it was proven that the secretary, one of the highest officials in the fund, was a Communist. It was only after several warnings from Mr. Snider that any attention was paid to it, and he was thrown out. But he had an influential office in the Fund, and he would not do anything to help the free world in the matter of gold. Since that time several officials have been discharged.

Mr. BIRKS: That is why I said I am not afraid of Russia, because I believe we could drive her out into the open by having a free gold market.

The CHAIRMAN: They are trying to strengthen the ruble by getting all the gold in Russia behind it, and keeping the support of the satellite countries. As an ex-banker I can see the picture plainly.

Hon. Mr. KINLEY: Mr. Chairman, in our consideration of this problem we should keep in mind that we are talking from the top of the heap. We have the best export trade in the world, and our money is worth more than that of any other country. We are in an envious position.

The CHAIRMAN: Our money is only at a half of one per cent today.

Hon. Mr. KINLEY: The United States will look to us for a remedy, because they regard us as the people who have the bag.

Hon. Mr. HORNER: They would do considerably better if the positions were reversed and our money was worth less than that of the United States. We are tied up with them in the sale of our wheat from Western Canada and are paid in American funds; the gold producers are paid by American money; and unfortunately all we can take from the situation today is pride in our position, but we are losing money.

Hon. Mr. KINLEY: Do less trading, and you will make more.

The CHAIRMAN: A great many companies now pay their dividends in American funds and we have to pay 15 per cent on them.

Hon. Mr. HAIG: American money is coming up these days, while ours is going down. The matter depends on the investment of American capital in Canada.

Hon. Mr. KINLEY: I like the story of the export of minerals. It shows a splendid growth from 1951 to date. There has been a phenomenal increase in our export of minerals, even to the United States.

Hon. Mr. HAIG: My honourable friend does not own any stock in the Hudson Bay Mining and Smelting Company, or any base metal mining company or he would not talk that way. The way things have gone over 1951 and 1952, I am afraid, in the light of what these gentlemen tell us, that zinc and copper are on the skids. How can we stop it? They have taken our nickel. They have got most of it tied up for contracts and development work. It is all right to say that we had a good trade in base metals in 1952 and earlier; they were then stockpiling metals for the war in Korea, and possible trouble elsewhere. Now they think they have a pretty good stockpile ready, and they are cutting us down.

The CHAIRMAN: There may be a reason for them to start stockpiling for Indo-China. Any further questions?

Hon. Mr. KINLEY: Have we a trade in base metals with European countries?

Mr. BATEMAN: Very small, outside of the United Kingdom.

Hon. Mr. KINLEY: Where is Germany getting her base metals?

Mr. BATEMAN: They are getting some from overseas, including a little from us, but mostly from European sources.

Hon. Mr. KINLEY: And Japan?

Mr. BATEMAN: We have not begun to pick up our trade with Japan yet. I don't know what is going to be the outcome. From 1937 to 1939 about 70 per cent of our exports of copper, lead and zinc went to the United Kingdom, and the principal outlets in addition to that were Germany and Japan. Of course the war interrupted those markets. Germany is only recently coming back as a big manufacturing nation. Japan is just starting, and we certainly have not picked up our markets there yet. Of course as a matter of fact we could have developed a bigger market with those countries had it not been for the fact that, following Korea, the United States asked us to curtail our exports to these traditional markets in order to give them additional supplies, and they gave us a practical assurance that we could count on a continuing market. In the present temper of the United States legislators, however, we do not know from day to day what will happen.

Hon. Mr. HAIG: The present Congress is more protectionist in sentiment than the one that went out. There is no doubt about that.

Mr. BATEMAN: The only thing we can do is to try to impress them with the fact that it is to their interest as well as ours to allow for free interchange. The alternative is something one does not want to contemplate, because it would be a violation of the principle we are trying to adopt—that of freer trade. We do not want to adopt retaliatory measures unless they are necessary.

Hon. Mr. CRERAR: I am sorry I missed the earlier part of this very interesting discussion. I am bound to say I cannot feel so gloom about this whole situation as some of my colleagues here do. After all, we always see the worst side of our American friends. They are great people to get out on the street and wash their dirty linen and let the world see the process. But it is quite obvious, certainly since the war, that the best thinking in the United States is against the policy of economic nationalism. We have had reports from one or two presidential inquiries set up by President Truman. Congress is a bit upset at the moment. I understand that President Eisenhower has lately started a new commission of inquiry, headed by Lewis Douglas, who at one time was principal of McGill University.

Mr. BATEMAN: Senator, every time they are faced with a new issue, all they do is set up a new committee.

Hon. Mr. CRERAR: Well, that is true. Of course I might say, for the information of Mr. Bateman, what I think he knows, that that is a device which is known beyond the borders of the United States. But they must find new supplies. Their basic supplies of base metals are dwindling, their population is increasing; the United States can no more live to itself today; and if it tried it, within a few years there would be a change of government down there. I am bound to say that in the Republican party there is a pretty progressive wing of enlightened people. The Democratic party there has usually been the party that believes in freer trade. I hope that we shall have a much clearer picture of this whole thing a year from now than we have now. After all, President Eisenhower has been in office only a few months. Many changes have to be made, and I think those changes will come about.

Hon. Mr. MACLENNAN: You have all the confidence in the world in Eisenhower. So have I. But will those fellows go along with him? That is the great trouble.

Hon. Mr. CRERAR: Some of those fellows will not go along with Eisenhower.

Hon. Mr. MACLENNAN: I am afraid the majority of them will not.

Hon. Mr. CRERAR: But I have a good deal of confidence that, in the event, Congress will go along with him.

Mr. BATEMAN: We may be ruined in the meantime.

Hon. Mr. CRERAR: No.

Hon. Mr. EULER: It has been said that we have not had any suggestions for correcting this situation from the gentlemen that made their submissions here this morning. I for one do not think we can expect anything very definite from them. They have studied the things that may be done to correct the situation, but, as Senator Haig says, they cannot possibly be accomplished unless the United States Government or the Congress can be convinced that they ought to do what is recommended. My impression is that while President Eisenhower is favourable to removing some of these restrictions, Congress at large—a Republican Congress, which he does not really control—is not. I was going to use an expression which perhaps I should not use: generally speaking, the United States does not “give a damn” about any country but their own. I think that, while we know that in the long run their policies will prove to be wrong, because they would result in a weakening of allied countries such as Canada and other states behind the Iron Curtain we shall have to try to convince them that they are wrong. There is not very much otherwise that can be done. So that the only thing I believe we can do—and I do not expect these gentlemen before us are going to do it—is to have the Government of Canada or anybody else with any influence try and convince the United States Government that they are wrong, that they should correct their attitude. What else can be done?

Hon. Mr. MACLENNAN: Nothing.

Hon. Mr. EULER: You must convince them they are wrong.

The CHAIRMAN: It is certainly a job for diplomacy and government. If there are no further questions we have another representation to be heard.

Mr. WANSBROUGH: May I take this opportunity of thanking the honourable senators very much indeed for the privilege of allowing us to come before them, and for the courtesy they have shown us.

The CHAIRMAN: We have representatives from the Canadian Importers and Traders Association Incorporated. These gentlemen are Colonel H. C. MacKendrick, General Manager; Mr. Thomas Oakley, Past-President, and Mr. M. E. Corlett, Legal Counsel. I believe that Mr. Corlett wishes to speak first.

Mr. CORLETT: Mr. Chairman and honourable senators, on behalf of the Canadian Importers and Traders Association we would like to thank this committee for permitting us to express our views on this far-reaching problem, the subject matter of a resolution which the honourable Chairman sponsored in the Senate. With me today is Colonel H. C. MacKendrick, General Manager of the Association, and Mr. Thomas Oakley, a businessman in Toronto, a Past-President of the Association, and who was perhaps more than any other importer the guiding genius in the establishment of this Association some twenty odd years ago. Mr. Oakley has always taken a great interest in matters pertaining to international trade, taking up a great deal of his time over and above his normal business duties. Besides being active in this Association he is very prominent in the Canadian Council of the International Chamber of Commerce. We have prepared a brief, but before delivering it there are certain introductory remarks which perhaps could be given to this honourable committee by Mr. Oakley.

Mr. OAKLEY: Mr. Chairman and gentlemen, I shall try to make my remarks as brief as possible because I realize that you have had a busy morning and your time is fully occupied. To introduce this subject I have given to each of you a little concise memorandum of the subjects which I am going to mention. As we understand it, your committee has two main purposes that it hopes to explore and achieve: The examination of ways and means whereby you may co-operate more effectively in the economic realm with NATO countries, and secondly, how you may succeed in expanding our trade with those countries.

Our Association is composed, as its name implies, of importers and traders who are vitally concerned in the accomplishment of these twin objectives of your committee. We have some ideas we should like to put before you. I was impressed by what the delegation you heard before us said with regard to finance and trade, and I was very interested too in the remarks of the Honourable Senator Haig with reference to how we might implement some program that would have the effect of expanding our trade. We realize that all our economy rests on our trade, and if we can do anything to expand that we are doing what we hope may achieve the improvement of our economic position in this country and the raising of our standard of living.

Referring briefly to this memorandum, I have put these points in succession. The first one I have noted down is that we as an Association fear that we may be headed for another world depression. In other words, the signs are already set, that we may first face a recession which may accumulate as it so often does. I will give my reasons for our fears in that respect as we go along. We think these depressions are caused by a cessation in the volume of international trade. International trade includes not only the trade between countries but domestic trade as well which each country does within its own boundaries. Trade contracts, and it usually contracts in the international field first because countries become very conscious of their own national economics and they seek to develop what we call a national economic consciousness that tends to exclude competition from other countries. Well, as you can understand, and as we have all experienced, that is a reactionary thing that creates a similar sort of conditions in the other country which we or others are trading with, and they set up similar barriers, the result of which is that trade contracts and we have to cut production. Because we cut that production we get unemployment, and because we get unemployment we have less spending money, and because we have less spending money we have this contraction of trade which really is what our depression amounts to.

Now, during the years that have elapsed since 1936, when the most serious effects of the world depression we passed through in the thirties, started to

lift, we found that economic nationalism, which was the cause of the depression, in our view, at any rate, had been held in check by four factors. The first of those factors was the fear of war, which resulted in stock piling and preparation. The second was the outbreak of World War II, which resulted in armament production and the industrial activity that accompanied it; and then following the war we had Marshall aid which consisted of monetary assistance for those who were in need of such assistance to rebuild their economy and get established on the basis that would permit them to take their place in the world as they did before the war. And since the Marshall aid program has run its course we had defence spending, which really brings us back to where we had gone in the first instance that first counteracted the fears of the depression, namely, stock piling and preparation again. What we fear now is that with a slackening of this defence spending we are likely to get along with that a slackening in industrial production, because defence spending has provided a sort of a forced draft that has accelerated industrial expansion for the purpose it was intended, and along with that it brings industrial activity in other fields which are affected by it. Now, if this slackening that we feel may take place does take place, because we are a little more satisfied that war is not imminent—perhaps because we feel we cannot afford to pay for all this defence production, whatever the reason, there do seem to be signs already on the horizon that we are likely to encounter that contraction in its forced draft of defence production. Now, the cycle, viewed in these terms, has been war, boom, depression, war. That is the cycle that we have been going through in the world, and that the world has been going through for a very long time. The only way that we can get out of this vicious circle is in international co-operation on the matters of trade, and we suggest that we set up an international control of trade and tariffs which will be on a scientific basis; it will have to be on a scientific basis if it is going to get international acceptance on the part of other countries; but we feel that it is so important to the world and so important to this country in particular, for our external trade represents 30 to 33 per cent of our total trade, that we should do everything we can to give a lead and perhaps encourage the acceptance on the international basis of some arrangement by which we can get a measure of international control of trade and tariffs, whereby countries will be willing to give up perhaps some of their sovereignty, that was dealt with so ably a few minutes ago by the delegation that preceded us here, and which they explained and further emphasized, namely, the lack of co-operation, the selfish viewpoint, the economic nationalism, that does so much to destroy international trade. And I am sanguine enough to feel that if we can put forward our ideas on a scientific basis, we will gain acceptance. And we are prepared to suggest to you how that might be done—that there is somewhat of that acceptance forthcoming from the other trading countries of the world, particularly those in the NATO group. We have already got the world bank, and the international monetary fund, and the extension of facilities in the international field to include the addition of those functions. The functions of trade and tariffs is not as big a step as you might at first think. At any rate, it is not beyond the realm of possibility.

With those introductory remarks I am going to ask Mr. Corlett to read our brief to you.

Thank you every much for hearing me.

Mr. CORLETT: Mr. Chairman and honourable senators, the brief prepared by this association, which will be designed to elaborate upon the points made by Mr. Oakley, is as follows—and I think each honourable senator has a copy.

The Canadian Importers and Traders Association is national in its membership but international in its outlook and its influence. Its membership is wholly Canadian being comprised of some four hundred Canadian

businesses interested directly or indirectly in the importation into Canada of raw materials, semi finished products or wholly manufactured goods. These Canadian businesses are representative of Canada as a whole in both the geographic and the business sense. Members are resident in all Provinces of Canada from Newfoundland to British Columbia and include wholesalers, retailers and manufacturers engaged in the business of importing goods or merchandise from other countries. In addition to those engaged in importing merchandise for their own account, our members include those who are engaged in the business of transporting, financing, insuring or advertising goods so imported but do not themselves buy or sell such merchandise.

The Canadian Importers and Traders Association believes that the best way for Canada to assist in developing economic collaboration and co-ordinated trade policies on a reasonably permanent basis is for Canada to provide an example to other nations of the benefits of a liberal trade policy.

It is difficult for one nation to persuade another free nation to adopt a particular economic policy and any attempt to do so may result in resentment and opposition. Therefore, it seems to our Association that by providing an example of a prosperous economy, together with a multilateral co-operative program, is the best method of encouraging other nations to fall in line.

We realize that much may be done at international conferences, both bilateral and multilateral, but feel that the strongest method for producing economic co-operation between nations is by providing a successful example of a free and co-operative trade policy.

In our opinion the best policy for Canada to follow may be summarized as follows:

Free Enterprise.—The Canadian Importers and Traders Association subscribes fully to the free enterprise system. By this we mean the fullest possible conduct of the business of the country by the individuals and firms engaged in the commercial and industrial activities of this country. While we recognize the need for public ownership and governmental operation of some public services in the interests of public welfare, we feel that such public ownership should be kept to a minimum.

Free Competition.—The Canadian Importers and Traders Association believes that business functions most efficiently and most economically under the stimulus of free competition. For this reason we are opposed to the creation of monopolies whether operated by governments or by individuals. We believe that free competition is the best stimulator and regulator of trade in both the national and the international fields.

Freedom of Currencies and Exchange Rates.—The Canadian Importers and Traders Association believes that where possible currencies and foreign exchange rates should be permitted to find their own values or levels. Canada has taken a lead in unpegging the Canadian dollar and allowing our currency to find its own value in terms of other currencies. This Association recognizes that the currencies of some countries are so unstable that they have to be supported by artificial means. However, all countries should be encouraged and perhaps assisted to balance their budgets and to live within their means so that the currencies of those countries would be free to find their own level. Only by so doing may the international trade of those countries be freed from the restrictions which must otherwise be placed upon it for the purpose of supporting the national currency values.

Invisible Tariff.—The Canadian Importers and Traders Association is strongly of the opinion that the so called invisible tariffs of all countries should be done away with. By invisible tariffs we mean the regulations or interpretations which may be issued under authority of the national customs act of the

various trading countries by the customs officers of those countries. Such regulations and interpretations are designed to unfairly tax imports from other countries and so prohibit or at least discourage trade in the goods so affected.

I may say that the classic example of the present day is the administration in the United States. As you know, the custom laws have plagued Canadian exporters; and an attempt has been made, and is still being made, to bring about a simplification of the law.

Hon. Mr. EULER: I was about to ask you if you had that one particular country in mind. Does it apply to other countries?

Mr. CORLETT: To give a rounded picture, I would say that Canada too has offended; but the policy of the government in recent years has been towards freer imports. I am thinking of the arbitrary valuation section in the customs act—I think it is either section 40 or 41—to which we resorted extensively in the depression days. What effect it had of a beneficial nature is hard to say. We have not resorted to it very much since 1945, for which importers are thankful; but nevertheless, that provision is still in the Customs Act.

The use of the invisible tariff by the United States has been very damaging to its trade with other countries from time to time. Canada too has from time to time and with the same damaging results made use of similar provisions contained in our own customs act such as the power vested in the Minister to determine the value for duty of the goods imported. Such valuations when applied are often unduly high with the result that trade in the articles so affected is discontinued.

Quotas and Restrictions.—The establishment of quotas and restrictions on the importation of goods from other countries has even a more damaging effect on trade than has the impact of a high customs tariff rate or a high customs tariff valuation. While the high customs tariff rate or valuation reduces and may even stop the flow of trade in goods so affected, the adoption of quotas or restrictions produces the same results and as a rule effects the prohibition or cessation of trade more quickly.

While the C.I.T.A. recognizes the right of any country to restrict the importation of certain goods from other countries which may be produced locally or nationally, this Association desires to point out that the cumulative effect of such restrictions is a sharp falling off in international trade.

The C.I.T.A. submits that if all trading countries in the free world would refrain from using these arbitrary methods, consumption throughout the free world would be increased and standards of living raised in all trading countries.

May I make one comment there by way of elaboration, which is in favour of the recent attitude of the Canadian government to the Geneva Agreements which, if and when they are ratified by the member countries, will to a large extent take care of quotas and restrictions. As we all know, unfortunately we are operating under a provisional protocol, and what will happen after the end of the year is hard to predict. In fairness to the government I must say that I believe it has gone about as far as it could. But as I say, the Agreements have never been ratified; I suppose the others are waiting until the United States takes the initiative. But if the principles which are embodied in the abridged Geneva Agreements, as distinct from the grandiose international trade charter which was drafted at Havana, is implemented and made binding upon the trading nations, then the problems relating to quotas and restrictions, which is so damaging to foreign trade, will be largely taken care of.

Accessibility to Markets.—The C.I.T.A. is strongly of the opinion that only by making the national markets of the free world accessible to its member countries can trade and employment be sustained and increased. Raw materials must be made available to all countries desiring to purchase those raw materials

at competitive prices. Also countries producing manufactured goods must be free to sell those manufactured products in the various markets of the free world on an equitably competitive basis.

Obstacles to International Trade.—Earlier in this brief we have mentioned some of the obstacles encountered by trading countries in obtaining accessibility to the various national markets of the free world. Such obstacles include:

- (a) fixed exchange rates and blocked currencies.
- (b) the current low price of gold.
- (c) the use of invisible tariffs.
- (d) the establishment of quotas and restrictions on trade.
- (e) high or prohibitive tariff rates.
- (f) imposition of internal or excise taxes on imported goods.

This Association believes that the greatest possible degree of accessibility to world markets and the least possible restrictions on trade will produce the best results. As our whole economic and political structure rests on our trade, both national and international, we are of the opinion that this consideration more than any other deserves our greatest attention.

The Question of Free Trade.—While this Association has already indicated its desire to give to international trade within the free world the greatest possible freedom of movement it does not go so far as to claim that absolute free trade is the immediate goal. We are of the opinion that as long as the great differences between the standards of living in the various trading countries prevail some regulation of trade between these countries is necessary. With this thought in mind we suggest for consideration the establishment by international agreement of a scientific international tariff system.

A Scientific International Tariff.—If there is any general agreement on the justification for a customs tariff it seems to be based on the acknowledged right of high wage countries to regulate or control the competition which they have to meet in their own markets from low wage countries.

It should not be too difficult to work out the average wage levels or average wage rates in the different trading countries. Once this has been done the relative labour costs in each country would be set down in order of sequence. It is quite true that wage costs are only a part, and sometimes a small part, of total production costs. Nevertheless for the purpose of regulating or adjusting competitive selling prices between trading countries this is the most reliable and the fairest index of price differences. It is also true that efficiency in production will vary between one country and another just as it often varies between one industry and another. It would be unwise and also unfair to protect and so perpetuate inefficiency which would result from a tariff which is too high based on relative production costs. One of the valuable corrective measures that competition brings about is an increase in efficiency and it should be encouraged, not curtailed. It is sometimes argued that one country has an advantage over another in the growth or production of raw materials, or of water power, and that these differences should be compensated for by national customs tariffs. Our consideration of this argument forces us to the conclusion that such differences are like climatic differences and that it is neither wise nor desirable that any attempt at equalizing them should be made.

One must also recognize the fact that wage levels in all countries are not fixed, but are fluid, changing with changing economic and trading conditions. We must also realize that one of the main purposes of production and trade is to raise standards of living and to enrich the lives of the people in all trading countries. These changes in wage levels should, therefore, be encouraged and recorded in the tables of national wage rates of all trading countries previously referred to.

After careful consideration of all the elements entering into the cost of production which are generally classified as raw materials, wages and overhead expenses, we are convinced that wages is the best and the fairest index of total production costs. This basis is, therefore, proposed as the basis for the construction of an international scientific tariff which it is hoped will be acceptable to all trading countries.

In the interests of prosperity and peace it is important that early agreement be reached by all trading countries on a scientific international tariff structure, and it is recommended that Canada should take a lead in submitting such a plan to the NATO countries which could be extended later to all trading countries.

By way of elaboration of this motion of a scientific international tariff structure: this is a matter that Mr. Oakley has given much thought to over the years; and you will see, honourable senators, that it is somewhat novel. Heretofore any principles relating to the administration of Customs laws have dealt with matters of evaluation for duty, dumping duty discrimination against imports by domestically levied excise taxes, for the most part, but at no time, to the best of my knowledge, has an effort ever been made whereby trading nations would get together and agree that when we fix the rate we will follow a generally agreed upon principle.

Hon. Mr. EULER: Would you rule out preference between countries,—for instance, the British preference?

Mr. CORLETT: Well, I think perhaps Mr. Oakley might answer that.

Mr. OAKLEY: I think, Mr. Chairman and gentlemen, that if we are going to get any policy that has international acceptance we have to forget political considerations. Now it is quite true that this country has built up its trade largely with the help of the British preference, but it is also true that we have passed beyond the stage where we can confine our trade within the orbit of the British Empire. I think we have to look at this thing realistically. We feel that the yardstick of wages is the only yardstick that has any hope of international acceptance. Wages are a measurable part of production costs, and what we are seeking to do in proposing a measure of this kind is to make it possible for the different countries of the world to trade with each other on the basis of fair competition. We recognize that there are different wage levels in different countries. Let us measure them. We will never equate them completely, but if we can equate them to the point where we can enable them to trade on a basis that is fair, then, I think, we have done something that will make a very real contribution to the trade of the world, and also to the improvement of the living standards of the world; and that is what we want to do.

In presenting this brief to you we have done so in its barest outlines. There are just two things about it that we wish particularly to emphasize. One is, we think that as somebody mentioned this morning, Canada can and should take a lead, that we should not wait for the United States to tell us what we can do and what they are going to do. I do not mean by that that we are going to act unilaterally. I do not think that would be wise. But I do think that we can give a lead in trying to get this international co-operation which, Mr. Chairman, your committee is seeking. In offering to lead we have to have something concrete to offer. I have the great admiration and the greatest praise for those who have conducted these tariff negotiations at Geneva and at Annecy and at Torquay. They are fine. But we are now in 1953, and there is some doubt as to whether those agreements are going to be implemented in all countries. In fact there is some doubt whether we are going to renew our own undertakings under these agreements at the end of this year.

Hon. Mr. EULER: No country has ratified them yet, has it?

Mr. OAKLEY: No. But we have as a matter of fact benefited by tariff reductions which were agreed upon at Geneva, and I think we should be grateful for those. But, without seeking to depreciate in any way what has been done at Geneva, we must recognize that fundamentally we and other countries have entered into a series of "horse trades". The horse trades may be good, we may have got a good horse, but it is not a very stable and permanent basis on which to build up trade.

Hon. Mr. EULER: "Stable" is a good word to use in connection with a horse trade!

Mr. OAKLEY: I have here a little booklet which I am going to leave with you, if I may, which will give in further detail—I do not want to burden you with too much detail—this international tariff plan. (See Appendix D) As I say, this is not the work of one man. A great many men have spent a great many hours, in fact years, in trying to develop something that could be of use. The fact that it is so different from what we are accustomed to makes it very difficult of acceptance without a great deal of consideration. However, I would like to submit it for your consideration, if I may.

The CHAIRMAN: We will have it entered in an appendix. Are there any questions that members of the committee would like to ask? We still have quite a bit of time on our hands.

Hon. Mr. HORNER: On page 5 of the Canadian Importers Association's brief it is stated: "It is quite true that wage costs are only a part, and sometimes a small part of total production costs." It is hard to think of any production which is not probably 85 per cent labour cost.

Mr. OAKLEY: Senator, I was thinking of the great many things which enter into international trade. For instance, some of the natural products, raw materials—for example, oil. The labour element or the labour content in the cost of oil is probably a very small proportion of its total cost.

Hon. Mr. HORNER: But you think of all the labour expended on dry wells. I don't know if the oil men would agree with you. I certainly would not. Or take the production of grain. A large part is labour costs. However, the comment I want to make is that it seems to me you have got down to grips with what we are facing in the different countries. It is a question of labour. I have been contending that all along, and the situation which we are facing today, I must admit, frightens me, when you look at it in the light of the lessons of history. One hears people boasting of the high standards of living here and in the United States, of shorter hours of work, higher and higher wages; and in the next breath they talk of world trade. Without some equalization in the matter of wages, it seems to me the two objectives are utterly impossible. How can one have short hours and high wages and trade with countries where people are willing to work for much less wages and longer hours? It seems to me that an agreement of the kind you have referred to would have to be worked out before we will get anywhere with international trade.

Mr. OAKLEY: I might say, in further explanation, that I could not agree more with what the honourable senator has said. We feel that if we can agree on a yardstick on which we may measure differences in production costs it would be a good thing.

Hon. Mr. MACLENNAN: And you think that is possible?

Mr. OAKLEY: Yes, I think that is possible. You have low-wage countries trading with high-wage countries, and the high-wage countries naturally say "We have to protect ourselves in our own market against those from the low-wage countries".

Hon. Mr. HORNER: Would you go so far as to suggest that we have a lowering of wages?

Mr. OAKLEY: No, but we want something more than just that protection. We have geared up our own production to the point that we are making more manufactured products than we are consuming. We want to trade with other countries, and even low-wage countries. When we ship our manufactured products into low-wage countries we are faced with the situation that our production costs are high largely because of the wage-content in them, and we have to have an equalization factor to equalize down as well as up. That is what we are trying to provide here. We think it can be made to work both ways. We think the world has a great deal to gain by an agreement on a program of this kind, and we were delighted to learn that your committee had been appointed to investigate into this situation. We think really it is the most important question that the world has to solve today.

Hon. Mr. HORNER: And in the next few years.

Mr. OAKLEY: Yes, and we have to do it very quickly.

Hon. Mr. CAMPBELL: Mr. Oakley, what do you consider is the greatest barrier to trade today of these three: First, the rate of duty; second, the inconvertibility of currencies, and third, the regulations or the hidden barriers that confront trade.

Mr. OAKLEY: Well, Senator Campbell, my answer to that may seem to you an evasion, and I do not want it to be an evasion. We regard these different elements in the international trade picture as a chain. Each one of these factors you have mentioned is a link in that chain, and we realize the chain is just as strong as its weakest link. If any one of these factors—and I do not care which one—is weak, then the whole chain suffers. We have picked out this question of tariffs and we have mentioned these other elements in the hope that they will be given consideration. The question of exchanges will probably be dealt with by committees which are much more able to deal with them than we are. You have probably heard representations from banking committees and from similar delegations as the one which you heard earlier this morning on the question of exchanges and gold values and so on. They will all have to be taken into consideration and worked together. It is a big problem but we hope we can make a contribution to the solution of it.

Hon. Mr. CAMPBELL: You would not care to say which, from your experience, is the greatest barrier?

Mr. OAKLEY: Well, we are importers and traders. We may be able to overcome the exchange difficulties and find Canadian dollars to buy United States dollars, or pound sterling or Indian rupees or whatever it may be, although the cost may be high because the rate is high. We may be able to pay the duties, though they may be high too. At any rate, as long as it is possible to bring in goods we can trade, but when you are up against quotas and embargoes and prohibitions, there is no trade. That is the greatest difficulty.

Hon. Mr. CRERAR: Do you think there are a good many difficulties in the way of getting your scientific tariff worked out? What was the phrase you used—scientific international tariff? It is a very interesting suggestion, but how is it possible to find a tariff that is internationally equitable? For instance, take Canada. We have a certain standard and certain efficiency. We pay pretty high wages. On the other hand, a country like Japan is fairly efficient but pays much lower wages and works longer hours per day. So that you have not only the wage factor but you have the work factor and the efficiency factor which have to be taken into consideration. If we reached an arrangement with Japan and said "Now, to get a fair result out of this we should put a tariff of, say, 20 per cent against Japan's imports". But we cannot put that tariff against Japan alone. We must put that tariff against other countries equally because we cannot discriminate in tariffs.

Mr. OAKLEY: What we have attempted to do is to list the countries alphabetically. We tabulated the average hourly wage rate for each of those countries. We have set a limit within which these customs rates may operate. Between any two countries the rate will be the same; that is, between each of them, though it will be different between the same countries and another pair or another one country.

Hon. Mr. CRERAR: Taking Japan as an illustration, the rate of tariff required in Canada in relation to Japan might be different from the rate that the United States would impose against Japan.

Mr. OAKLEY: That is right, but against all the products that we might buy from Japan the rate would be the same, because we assume that their labour costs are the same no matter what industry is involved. That is what we are concerned about.

Hon. Mr. EULER: You would have to make individual agreements with various countries?

Mr. OAKLEY: I do not think we would have to make agreements. If this is acceptable—and it is only workable if it is acceptable—and the countries agree that this is a fair standard and agree to take their places in their order of sequence where they come on the table according to their wage scale, and if every country, according to its place on the table, is allotted its proper rate, you see how simple it would be.

Hon. Mr. EULER: What I am getting at is how are you going to have all these countries get together in the first instance? Will they all sit around a table and come to some decision as to tabling what the individual countries are to do, or would you proceed by, say, Canada getting together with Japan? The two countries would consider their different wage rates and decide on what basis they should proceed, having regard to the wages and labour costs. Then if Canada wanted to she could make a similar arrangement with another country. Is it to be done in that way or in one great big job?

Mr. OAKLEY: My hope would be to do it in one big job. If we can all agree on the principle involved and agree that it is fair to all countries, then it is not a question of negotiations between, say, Japan and Canada for a rate, and so on.

Hon. Mr. EULER: Who would do it?

Mr. OAKLEY: You have them tabulated and it is worked out by agreement; that is to say, by collective agreement, and it is just a matter then for the statisticians.

Hon. Mr. HORNER: May I ask whether there has been any discussion about this with other countries? Is your organization purely Canadian?

Mr. OAKLEY: We are purely a Canadian organization. As we say in our brief, we are national in our membership and we are international in our outlook.

We have not collaborated with any other country to try and develop our ideas. We have simply tried to work out something that we hope is constructive and to overcome the trading difficulties over the years.

Hon. Mr. HORNER: I suggest that it would be interesting to take up the matter with other countries.

Mr. OAKLEY: As Mr. Corlett said in introducing me, I am a member of the Canadian Council of the International Chamber of Commerce. The International Chamber of Commerce will consider—and I will not say whether it will approve or not—this program. At any rate, we are submitting it to it. However, it has not as yet got that acceptance.

The CHAIRMAN: Honourable members, it is 1 o'clock, and if there are any more questions, please be as brief as you can, otherwise we will adjourn.

Hon. Mr. EULER: We thank these gentlemen for coming here.

The CHAIRMAN: Yes.

Mr. OAKLEY: On our behalf, I would like to thank the honourable members for giving us this hearing. We hope we have not kept you too long.

The CHAIRMAN: We thank you, sincerely.

Whereupon the committee adjourned.

APPENDIX C

SALES OF CANADIAN METALS AND MINERALS

	Production (1,000 tons)	Canadian		EXPORT TRADE TREND		
		Consumption (per cent)	Exports	Exports (1,000 tons)	U.K. (per cent)	U.S. (per cent)
Copper						
1937-39 (annual average)	285	20	80	228	52	18
1952	259	47	53	148	29	53
Lead						
1937-39 (annual average)	203	13	87	176	66	2
1952	167	28	72	153	17	73
Zinc						
1937-39 (annual average)	191	12	88	166	62	3
1952	366	13	87	349	29	64
Nickel						
1937-39 (annual average)	110	1	99	109	39	40
1952	140	2(est.)	98(est.)	142	22	63
Aluminum						
1937-39 (annual average)	67	14	86	61	52	8
1952	500	15	85	416	62	29
Asbestos						
1937-39 (annual average)	354	negligible	100	1945 441	9	70
1952	928	1	99	1952 902	6	59

APPENDIX D

International Trade and its influence on Political and Economic Development.

This booklet contains a series of articles that first appeared in the weekly Bulletin published by the Canadian Importers and Traders Association Inc.

These articles have been collected and reproduced herein for the purpose of calling attention to the need for a more liberal attitude towards International Trade.

THOMAS OAKLEY,
Past President, Canadian Importers and
Traders Association Inc.

Toronto, 15 April, 1951.

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After Marshall Aid—What?

The benefits that the United States has conferred, through Marshall Aid, on a war shattered and exhausted world are incalculable. Western Europe in particular has been so greatly assisted to re-establish a peace time economy by this generous help that this objective is now almost an accomplished fact. Marshall Aid has not, however, been limited to Western Europe alone; it has also been extended to Asia and the Far and Middle East. The burden of conferring these benefits has been carried by the citizens and taxpayers of the United States.

In making this generous gift to the world, the people of the United States have perhaps unconsciously been influenced by the old proverb—"Cast thy bread upon the water and after many days it will be returned to you". The benefits which have been conferred by the United States may or may not actually have been returned to its people; nevertheless benefits have been returned. It now seems quite evident that without this Marshall Aid Western Europe would have been over run by the forces of communism just as was Eastern Europe and China. It is also evident that had not Western European and other countries been supplied with the needed United States dollars, those countries would have been unable to purchase the manufactured goods and the natural products of United States production. A benefit is, therefore, conferred on those who give as well as on those who receive. There has also been a benefit conferred on countries which has not directly participated in Marshall Aid. Canada for example has had a readier market for its cereals and food products in England and in continental Europe than would otherwise have been possible.

In spite of all the benefits given and received—and they have been many, the United States is getting weary of carrying this heavy burden. For the taxpayers of that country to produce in 1950 the staggering amount of two billion seven hundred million dollars for Marshall Aid payments is no small accomplishment, even for a country as large and as highly industrialized as is the United States. Through their elected representatives in Congress and in the Senate they have served notice on the world that these benefits will stop in 1952. It was hoped that by that time the world would have sufficiently recovered from the dislocation and the destruction caused by the war to again resume its peace time economy. However optimistic we may be, and most of us like to be optimists, we cannot help wondering if this is likely to be so. If it is not so, and the world economic and trading position worsens because of the withdrawal of Marshall Aid the consequences are terrible to contemplate. They are, or seem to be, world depression followed by war and/or universal communism.

The present re-armament programme will no doubt temporarily remove the need for a more permanent substitute for Marshall Aid when that programme ends in 1952. Re-armament will be effective to accomplish this purpose, however, only so long as the re-armament programme itself continues. When re-armament comes to an end, and it must end reasonably soon, unless further necessitated by a third world war, a substitute for this artificial stimulus to international and to domestic trade must be found.

Everyone will probably agree that the United States have been carrying the whole burden which Marshall Aid has entailed long enough. They have now indicated that they are about to lay it down. The question is, who can and will pick the burden up. It is evident that this burden is too heavy for any one country to assume alone, but perhaps it can be carried jointly by a few countries or shared by many. Approximately three billion U.S. dollars is a lot of money to be produced by any group of countries, let alone by one country. Nevertheless as we have seen there are real advantages to be obtained and real benefits to be conferred by a continuance of Marshall Aid or a substitute for it.

The great benefit returned to a creditor country like the United States is that by giving Marshall Aid dollars to a debtor country like Italy or France those debtor countries can buy and pay for manufactured goods of United States production. The gift creates trade and trade creates employment and prosperity in the trading countries. Perhaps the greatest benefit conferred by Marshall Aid is the trade which it creates and the employment and prosperity that follows as a natural consequence of that trade. To create or encourage trade, two conditions are necessary between trading countries—the ability and willingness to buy, as well as the ability and willingness to sell.

The ability to buy often depends on the ability to sell. International trade in all essentials is an exchange of goods for goods, rather than an exchange of goods for money. The ability to sell, in turn depends on the ability to compete. It goes without saying that goods which sell must be competitive as to both quality and price. As between trading countries the cost of competitive or comparable goods will differ, and perhaps will reflect differences in wage or production costs between trading countries. For the purpose of equalizing these differences in production costs between countries, an international scientific tariff based on national wage levels might well be considered as a substitute for Marshall Aid.

Marshall Aid created the ability to buy in debtor countries but did not of itself create ability to sell. A more lasting benefit might be conferred on the world at this time, when it is most needed, by an international tariff or trading structure that will create both ability to buy and to sell. This may sound impractical to some, but actually there is nothing impractical in the idea.

All that is needed is an equalizing international tariff based on national wage levels. Such an international tariff would equalize prices between high and low wage countries on both the upper and the lower levels. That is to say it would equalize prices charged for goods going from low wage countries to high wage countries by an import duty on these goods entering the high wage country. It would also equalize prices charged for goods going from high wage countries to low wage countries by an export subsidy paid by the high wage country to the low wage country.

The adoption of such a scientific international tariff based on national wage levels would have the effect of lowering the cost of goods imported by low wage countries from high wage countries to make such goods competitive with goods of domestic production. It would also have the effect of increasing the cost of goods imported by high wage countries from low wage countries to put such goods on a competitive basis with similar goods of domestic production.

This international tariff programme based on national wage levels could do all that Marshall Aid did and more. It would not only increase capacity to buy on the part of debtor countries but it would increase capacity to sell or exchange goods by both debtor and creditor countries, by high wage countries as well as low wage countries. It would distribute the cost of such aid among all trading countries in proportion to their external trade volume. The bread cast on the waters by such trading countries would thus be returned to them.

Scarcity in the Midst of Plenty

We are all familiar with war time shortages and scarcity. That is to say, we are if we have not forgotten past experience. We no longer hear much about the War Time Prices and Trade Board, but we should not forget that it was created to deal with commodities in short supply—all commodities in fact, and to hold down prices at the production, wholesale, and retail levels.

The war which ended almost six years ago is sufficiently far removed from the present that we are inclined to forget some of its lessons and even some of its conditions, which at the time we thought were indelibly impressed on our memory. Under five years of so-called uneasy peace or cold war, production caught up with demand for most commodities and in some lines of production surpluses were created. Surpluses were particularly noticeable in the case of agricultural products and now threaten to become more noticeable unless war demands remove them. In the United States fantastic measures were adopted by the government of that country to pay the producers artificially high prices for their surplus production and then in some way to dispose of the surplus purchased or subsidized without letting the prices fall. In our own country we have done something very similar with Canadian butter, the price of which was kept artificially high by government subsidy.

Whenever prices are kept artificially high by the various devices which have been used for this purpose, it has been found necessary to subsidize one group of producers at the expense of the other groups. If for example the price of potatoes is kept at an artificially high level in the United States the producers of potatoes are paid a bonus or subsidy which must be collected from the taxpayers as a whole. There is, of course, a lot of resistance to the policy by the taxpayers at large and sometimes the policy is not even favoured by people who are not taxpayers. The various attempts which have been made by many countries in the past to cut back or limit production of agricultural produce, or to destroy surpluses which have been produced and which threaten to lower prices below the cost of production, have always been unpopular with some people or some countries.

There was a natural resentment in other countries to the policy adopted by the Roosevelt administration of the United States in the 30's to destroy

what was regarded as a surplus hog production. It is true that the measure brought some relief to the hog raising farmers of the United States, at the time, by stabilizing a falling market for hogs, but as a result of the policy people in other countries where food was scarce were deprived of needed bacon and pork. The same situation existed recently in the United States with respect to potatoes and eggs. It is a situation that threatens to become more general on this continent as a result of the natural desire of the farmers of Canada, and of the United States, to increase production and at the same time hold prices.

On the face of it, the policy of holding prices by limiting production, or by destroying surplus production, is morally wrong. If people in need of food are denied that food because the producers want higher prices there would seem to be both moral and economic injustice somewhere. On the other hand there would seem to be no good reason why the farmers of North America, or of any other country where surplus agricultural production may exist, should assume the responsibility of feeding the hungry people in the world wherever they may be. There must be some equitable basis on which the producers can be rewarded and the hungry can be fed, short of making the latter a charge on the former.

The crux of the problem lies with the exportable surplus. That portion of domestic production which can be consumed in the domestic market offers no problem and this is true of both agricultural and industrial production. With production geared up in both of these fields, agriculture and industry, to meet war demands, it is not surprising that we are encountering surpluses in both of them. The problem is what to do about it, and the programmes offered, of cutting back production on the one hand and subsidizing production on the other, seems both contradictory and illusionary. These solutions are bound to end disastrously as has happened before. The only situation that may change things is another world war, and this we are trying desperately to avert. It may be, however, that our very desperate efforts may have the opposite result to the one we are seeking and may in fact plunge us into another war.

Why not recognize the fact that our problem is concerned with the exportable surplus only and if we want to subsidize production subsidize that part of production, and that part only. It would of course have to be done on an equitable basis which would apply to both agricultural and industrial exportable surpluses. The needy peoples of the world should be fed, but they should also be clothed and encouraged to lead a fuller and a happier life. By subsidizing our exportable surpluses we could benefit the needy and at the same time benefit ourselves. Such subsidizing would have to be done on a scientific as well as on an equitable basis and here again a scientific international tariff to which we have previously referred might accomplish the desired result.

It is perhaps a new concept of tariffs to think of their application to agricultural production, but is there any reason why the agricultural worker should not be protected? Surely the agricultural worker is entitled to protection just as much as his fellow citizen in the industrial field. In the same way his surplus production is entitled to payment of a subsidy just as would be the surplus or exportable part of industrial production. If we recognize the fact that economic differences do exist between countries, and who can fail to recognize them, then we must logically recognize the justice of trying to equalize those differences. A general raising of standards of living everywhere can be brought about by an international scientific tariff based on national wage levels. Why not endeavour to work out such a tariff and give trade and production a chance to expand instead of seeking to contract both.

East is East and West is West

The differences in the standard of living between races or between countries have throughout the world's history been a constant irritant that have often resulted in wars between "the haves" and "the have nots". It is true that there have been many wars where there was very little difference between the warring groups in their standard of living. Usually however in such cases the aggressor hoped to gain something at the expense of the aggrieved. As long as economic differences between national or other groups exist there will no doubt be a tendency to resort to war as a means of adjusting those differences.

As a result of World War II, whose causes can be traced to these same economic differences, there has been a tendency for the world to be divided into two main groups—East and West. The Eastern group includes practically all of Asia and part of Eastern Europe. The Western group includes Western Europe and America. There is a marked difference in the standard of living of the two groups of which both groups are conscious. The fact that the standard of living of the Western group is higher than that of the Eastern group is a cause of irritation and of envy on the part of the Eastern group. The irritation has been added to by the belief, strongly held by the Eastern group, that the favoured position of the west is in some measure at least due to trading and territorial advantages held by the West. The fact that the United States and Great Britain and France have trading advantages in the East which are not compensated for by any comparable trading opportunities afforded to the East in the Western countries is also an aggravation. Added to this is the fact that both France and England have territorial possessions in Asia and Africa which are not favourably regarded by the Eastern group.

The fires of nationalism burn fiercely wherever a country or a district is occupied by a foreign power. This is illustrated in the case of Korea today. The occupation may be benevolent and it may be quite acceptable and beneficial to the people in the area occupied, but inevitably neighbors and patriots will feel that a territory has been violated and a wrong perpetrated which must be redressed. This was the case in India and it is still the case in Indo China, in Hong Kong and in Malaya. It may or may not be the case in the Philippines.

It appears from any viewpoint that the world is becoming divided into two hostile camps—East vs. West. The animosity of the East towards the West is encouraged by two main considerations—firstly the relatively higher standard of living enjoyed by the West and secondly an intensification of national consciousness in the East which is challenged by Eastern colonial territories held by the West.

Unless some reconciliation can be found for these two hostile attitudes of East towards West and vice versa, the world will be drawn closer and closer towards a third world war.

The question for which an immediate answer must be found, if a conflict is to be avoided, is what can be done to overcome this great difference in living standards between the East and the West. The prosperity of any and every country depends on its trade, that is, on both domestic trade and international trade. This being so, it is apparent that only by increasing the trade of the East and by improving its trading position with the West can any hope be found for improving its standard of living. This increase in trade need not necessarily be found wholly in the West, but from that increase which is found in the West both East and West can benefit, economically as well as politically.

It is important that every possible encouragement be given to international trade if international peace is to be found. This necessarily means a new concept of trade and tariff. A scientific international tariff based on national wage levels is recommended as a practical solution.

A Scientific Tariff Structure

In an earlier chapter of this booklet attention was drawn to the need for a revision of national customs tariffs on a scientific basis. The need for the revision of all national customs tariffs has been apparent to all international traders for a very long time. During the depressed years of the thirties the need was very acutely felt indeed. With the outbreak of war any serious consideration of tariff revisions was dropped for the more important business of bringing the war to a successful conclusion. Since the war ended in 1945 piecemeal revision has been attempted under the impetus given by trade agreements entered into by the various United Nations at Geneva, Havana, Ancey and Torquay. Such changes as have taken place are not basic but have been the result of diplomatic negotiation. The task of revision on a scientific basis still remains to be undertaken.

The dependence of all trading countries on each other has been clearly demonstrated, and if further proof were necessary one need only recollect that no country can live entirely to and by itself. In our own case, Canada's foreign or external trade is approximately one third of its total trade. This external trade is vital to us and it is imperative that favourable conditions for its maintenance and growth should be established. Favourable conditions can only be established by bringing about the four basic necessary requirements—free exchange rates, removal of trade embargoes and quotas, removal of invisible tariffs, or as it is sometimes called—customs maladministration, and the establishment of a scientific international tariff system.

A tariff structure that is established on a scientific basis is the only structure that has any hope of general acceptance among trading countries. To be scientific is to be reasonable and fair. A scientific international tariff is designed to regulate trade on a basis of reasoned economics, instead of on a basis of political or economic opportunism. If there is any general agreement on the justification for a customs tariff it seems to be based on the acknowledged right of high wage countries to regulate or control the competition which they have to meet in their own markets from low wage countries. The rates established by the high wage countries to regulate this competition are sometimes fair, sometimes prohibitive, but never are they scientifically worked out on a basis of relative wage costs or wage rates between two trading countries.

It should not be too difficult to work out the average wage levels or average wage rates in the different trading countries. Once this has been done, the relative labour costs in each country would be set down in their proper order. It is quite true that wage costs are only a part, and sometimes a small part, of total production costs. Nevertheless for the purpose of regulating or adjusting competitive selling prices between trading countries this is the most reliable and the fairest index of price differences. It is also true that efficiency in production will vary between one country and another just as it often varies between one industry and another. It would be unwise and also unfair to protect and so perpetuate inefficiency which would result from a tariff which is too high. One of the valuable corrective measures that competition brings about is an increase in efficiency and it should be encouraged, not curtailed. It is sometimes argued that one country has an advantage over another in the growth or production of raw materials, or of water power, and that these differences should be compensated for by national customs tariffs. Our consideration of this argument forces us to the conclusion that such differences are like climatic differences and that it is neither wise nor desirable that any attempt at equalizing them should be made.

One must also recognize the fact that wage levels in all countries are not fixed, but are fluid changing with changing economic and trading conditions.

We must also realize that one of the main purposes of production and trade is to raise standards of living and to enrich the lives of the people in all trading countries. These changes in wage levels should, therefore, be encouraged and recorded in the wage structures of each and every country.

After careful consideration of all the elements entering into the cost of production which are generally classified as—raw materials, wages, and overhead expenses—we are convinced that wages is the best and the fairest index of total production costs. This basis is, therefore, proposed as the basis for an international scientific tariff which it is hoped will be acceptable to all trading countries.

In the interests of prosperity and peace it is important that early agreement be reached by all trading countries on a scientific international tariff structure.

Competition Is The Life Of Trade

The two principles upon which the Canadian Importers and Traders Association is founded are "Imports pay for Exports" and "Prosperity depends on Trade". To these two principles a third should perhaps be added "Competition is the life of Trade". Without competition trade stagnates, and as a consequence prosperity disappears. One of the best illustrations of the application of this principle, or the result of the absence of competition, is to be found in the state operated retail store in a totalitarian regime like Russia. There, stores have little or no competition to face and consequently lack the incentive to efficiency that is so apparent in our own free enterprise retail stores. Wherever a monopoly exists, in either the production or the transport, or the selling of merchandise, there is usually found to be a lack of efficiency. We apparently need the stimulation or the incentive of competition if we are to do our best. No world records have ever been set by any one running a race with himself.

Individually and as business men, we might all like to be monopolists and as such free from competition. We are all perhaps inclined to feel that it would be a great thing for each of us if we had no competition. We then would not have to worry about our selling prices or our costs being on a level with our competitors; we could set our selling prices then at whatever level we liked, and—Oh Boy—wouldn't we then set selling prices at a level that would give us handsome profits. We would not even have to worry about doing any selling. If we had no competitors, buyers would then have to come to us . . . Wouldn't that be fine? Yes, for us fortunate monopolists it would be fine—at least it would for a time. We could then take it easy and not worry about a thing. It is probable, however, that our customers wouldn't like it. They would probably feel that we were charging them too much, but we should worry, or should we?

There is no doubt that under this monopolistic system trade would fall off. We would ourselves have more time for golf and less time for business. Our sales might fall off too, but we might make this loss up by increasing prices. However we might juggle things, it is quite likely that we would find prices going up and sales falling off. Production would have to be cut back as a necessary consequence of this declining trend which in turn means laying off employees. It would soon become apparent to all us monopolists that we were obtaining our easy prosperity at the expense of the rest of the country. Our fellow citizens, who were not themselves monopolists, would not share our prosperity but would provide that prosperity for us at their expense. Sooner or later, however, we are bound to find our prosperity vanishing too, but not before we have reduced the rest of the country to a very low state indeed.

The truth of the statement that competition is the life of trade is now in this country generally accepted. What is equally true, but not so generally recognized is the reverse of this principle—"that monopoly is the death of trade". There are of course varying degrees of monopoly, not all monopolies are absolute. In the field of international trade many countries are shaping their foreign or trading policy with a view to creating monopolies for their domestic manufacturers in the home markets. This policy carried to its natural conclusion is, of course, the death of trade.

Competition is now generally recognized as the best stimulator and regulator of trade in both domestic and international markets, but it must itself be regulated. It is only by the adoption of a program of scientific regulation that trade and prosperity can be increased. To put it another way, if trade contracts or shrinks by reason of the adoption of national policies designed to create national monopolies, world depression is inevitable. Competition in international trade must be encouraged. Every country must be encouraged to "export" and to "import".

Two countries trading with each other, both of whom have approximately the same wage level, require little in the way of tariffs to regulate trade between them. The greater freedom that can be given to the trade between any two such countries on the same wage level, the better. Such conditions are favourable to expanding trade and prosperity.

When a high wage country trades with a low wage country it is desirable that there should be a movement of goods in both directions—from high to low and from low to high. When goods move from the low wage country to the high wage country a scientific tariff should equalize the imported cost of the goods produced in the low wage country with the cost of similar goods produced in the high wage country.

When goods move from a high wage country to a low wage country the scientific tariff should also equalize the imported cost of goods produced in the high wage country with the cost of similar goods produced in the low wage country.

It is necessary that we enable our own exporters as well as the exporters of other countries to compete in both high wage countries and low wage countries. Expanding trade requires markets in low wage countries as well as in high wage countries. When Canada, a high wage country, sell its goods in Japan, a low wage country, it is necessary that it be able to compete in that market with goods of Japanese production, and also with goods produced in other countries which are imported into Japan. A scientific tariff must be able to equalize prices for goods moving from the upper levels down to the lower levels, as well as being able to equalize the prices of goods moving from the lower levels to the upper levels.

A scientific tariff should encourage competition by equalizing prices. It will enable and encourage the weak to trade with the strong and vice versa. It will also encourage the weak to become strong by encouraging the weak to raise wages and to raise standards of living.

The old concept of imposing taxes or tariffs on imports and using the money collected in this way to defray the expenses of government must give way for something more progressive. It is utterly wrong to discourage trade by embargoing it or by unfairly taxing it. Trade is the keystone on which all our prosperity depends. It must be encouraged on a competitive basis. Exporting countries must be encouraged to sell their products in the markets of all trading countries. This can only be done by a scientific tariff internationally acceptable, that equalizes prices down as well as up. Trading monopolies must give way to competition, for competition is still the life of trade.

In an earlier chapter it was suggested that a scientific international tariff should be the substitute or the successor for Marshall Aid. What was meant by this suggestion is that the low wage countries or low standard of living countries, who are in need of outside aid, would be receiving such aid, not from the United States alone, but from all high wage countries with whom each was trading. The aid so given would be directly related to the needs of each country as indicated in its foreign purchases or imports and would, of course, be given on the scientific basis which underlies this international tariff plan.

The benefit to any low wage country which is enabled to import goods from high wage countries at prices equalized down to the level of production costs in the importing low wage country is a measurable benefit. In the case of consumption goods such as food, clothing, etc., such goods are then available to the native population at lower prices, which has the effect of both lowering the cost of living and raising the standard of living within the country.

In the case of production goods such as machinery tools, equipment, etc., the same lowering of imported cost occurs in the low wage country. The consequence of this is a direct encouragement to both trade and industry in the low wage country.

Trade can only be encouraged or expanded by raising standards of living in all trading countries. We should never lose sight of the principle that "prosperity depends on trade". It is a good thing for people, both individually and collectively, that the cost of living be lowered for them. Such a lowering of the cost of living encourages consumption which in turn encourages both trade and production. Quite apart from the benefit to the individual in the low wage country which results from a lowering of the cost of the imported goods which he consumes, there is an even greater benefit conferred by encouraging native production and industry to sell its products on equalized terms in other countries. If low wage countries generally can be encouraged by the proposed scientific international tariff to export their native production to other countries, a benefit of inestimable value is conferred. By the same token the benefit is twofold, because the exchange of goods for goods, benefits both parties to the transaction. By this arrangement all trading countries are benefited.

Under the proposed scientific international tariff, customs duties collected by high wage countries would no longer be used to cover the cost of national government. These revenues would then be used for the purpose of subsidizing and expanding export trade to low wage countries on a scientific basis.

A Suggested International Tariff Plan

In this chapter a plan is outlined whereby all trading countries of the world may be listed in order of the average hourly wage rates paid in each. For convenience the rates in the schedule hereunder are shown in dollars, though any other common currency unit would serve the purpose equally well.

The tariff rate shown opposite each country (which is indicated by letter rather than by name) is proportional to the wage rate shown for each. A maximum tariff rate of .50 has been selected because it was thought that for the intended purpose it was not necessary to exceed this rate. The remaining tariff rates shown in the schedule vary between the maximum of .50 and the

minimum of 0 and are, as previously indicated, proportional to the wage rate shown for each country.

Country	Average Hourly Wage Rate	International Tariff Rate
A	\$2.00	.50
B	1.75	.4375
C	1.50	.375
D	1.25	.3125
E	1.00	.25
F	.75	.1875
G	.50	.125
H	.25	.0625
I	.10	.025
J	0	0

Under the proposed International Tariff Plan, goods shipped from one country to another would be subject to the payment of a customs duty or tariff calculated at a rate corresponding to the difference between the rate shown opposite the importing country and the rate shown opposite the exporting country in the above schedule.

For example, if goods are imported by country "A" from country "J" the rate of duty applicable would be calculated at a rate of (.50—0) or 50%.

If goods are imported by country "A" from country "E", the rate of duty applicable would be (.50—.25) or 25%.

If goods are imported by country "J" from country "A", the rate of duty applicable would be (0—.50) or —50%.

If goods are imported by country "E" from country "A", the rate of duty applicable would be (.25—.50) or —.25%.

From the above illustrations it will be seen that where the movement of goods is *up* (from low wage countries to high wage countries) the duty or tariff is a positive rate or a plus quantity to be added to the cost of the goods. This is a tax or duty imposed by the importing country at the proper rate as calculated according to the above procedure.

On the other hand, where the movement of goods is *down* (from high wage countries to low wage countries) the duty or tariff is a negative rate or a minus quantity to be deducted from the cost of the goods or, alternatively, to be paid as a subsidy by the exporting country to the importer.

The objective of the proposed International Tariff Schedule is to encourage international trading by attempting to approximately equalize production costs in terms of wages paid. In equalizing wage costs in this way and to this extent, exporting countries are better enabled to compete with each other in world markets.

It is desirable that competition between countries selling their surplus production in world markets should be conducted on a basis that approximates equality of production costs as nearly as possible. It is recognized that no system of national or international tariffs will effect complete equality. This being so, it would seem desirable to aim at an ideal in the hope of getting as close to the ideal as possible.

The low wage countries have a definite advantage, in lower labour costs, when competing with high wage countries in world markets. It is sometimes true that this advantage is offset by inefficiency in production methods and in equipment, as compared with high wage countries. Nevertheless because efficiency is desirable, we should seek to encourage it wherever possible. This was the objective that Mr. Truman had in mind when he enunciated this year

his program for world assistance. Point four of that program was designed to make American "know how" or efficiency available to all deserving countries. The Colombo plan also contains a provision whereby those countries seeking to create or to expand industries within their borders, may obtain technical advice and assistance from other more technically advanced countries.

International competition exists on all levels—high, low and intermediate. It is desirable, therefore, that our equalizing factor or international tariff be effective on all levels. In other words, it is desirable that we equalize *down* as well as *up*. It is for this reason that the negative rates are applicable on the export of goods from high wage countries to low wage countries.

Flexibility is a very desirable feature for any programme which has as its object the increase of world trade. It is very desirable that low wage countries should be encouraged to raise their national wage levels and their national standards of living. It is equally important, as these changes are brought about, that improved or increased trading opportunities should be offered to such countries. For this reason, the tariff schedule submitted should be revised each year so that where a rise in national wage levels has taken place, the country or countries wherein such changes have taken place should occupy their new and proper place in the schedule. In this way an incentive is offered to all trading countries to raise wages and to improve national standards of living.

As the purpose of the international tariff plan is to create and to expand international trade, it is important that this goal be kept constantly in mind. Customs duties collected on imports should not be regarded as additions to national revenues, but rather as a revolving fund for the purpose of assisting exports.

If allowed to operate freely the plan will of itself prevent the exclusion of exports and the creation of monopolies. It would also act as an automatic check on dumping.

The Proof Of The Pudding

It has for a long time been generally agreed that the proof of the pudding is the eating of it. This may be the case also with the proposed International Tariff Plan—that we can only prove or disprove its worth by trying it out. The risks and changes involved in making such a try out do not appear to be very great. The machinery is already set up, in every trading country, for the collection of customs duties and the payment of subsidies where necessary. What then do we stand to gain or lose by giving it a try?

In the first place we make a considerable gain from the simplicity of the operation. Instead of using a complicated tariff schedule containing some nine hundred tariff items with additional subsections for many of them, we have only one rate and one tariff item for each country from which we may import.

In the second place, we make a considerable gain in the more definite arrangements provided by the plan. An importer knows at once the rate of duty he will have to pay on any merchandise purchased in any country. He also knows that the goods he wishes to import will not be refused admission by reason of quota restrictions. This same definite knowledge is of great advantage to the exporter. He too knows what duty his goods will have to pay on admission to any country in which he may wish to sell and he knows also that under the terms of the International Tariff Agreement his goods will be admitted at the proper rate of duty.

In the third place a benefit is conferred on those countries most in need of it. The low wage countries are enabled to purchase from high wage

countries manufactured goods, and machinery for their own industrial development, on more favourable terms (by reason of the export subsidy). Such a benefit is twice blessed. "It blesseth him that gives as well as him that receives". This follows as a result of increasing trade between the two countries and as a consequence of this, increasing both production and consumption in both countries.

The great gain which the International Tariff Plan has to offer all trading countries is this gain of increased trade. It does not require a great deal of imagination to see the benefits of such an increase. We each of us know the benefits to be derived from increased trade in our own business. The other fellow is in no wise different from ourselves, be he in the Eastern group or the Western group. Take for example any daily worker in the Eastern group. It does not matter what work he is engaged in—it may be carving ivory, or hammering brass, or growing wheat. In all of these occupations his problem is the same—to sell his product for the best price he can obtain for it. If his sales are limited to the village market in which he resides, the market may be small and the demand limited, in which case the price he obtains will be small also. If the market is not limited to the immediate locality but includes the other national markets within the boundaries of the country, then the demand will be greater and probably the price higher. If, however, the market can be still further extended to include world markets, the demand is still further increased and price correspondingly advanced. The greater the market the greater the demand and the greater the demand the greater the price. This means that the Eastern worker is in this way encouraged to produce more goods because he can sell more, and he receives more for his labour in return, partly because he has more produce to sell, and partly because there is a greater demand for the products of his labour.

If the goods produced in the East are exchanged for goods produced in the West, both groups gain from this increase in trade. In this way standards of living are raised and the threat of war removed.

In the exchange of goods between countries the operation of an International Tariff Plan is only one of the links in the chain. Some of the other links or elements in this international trade movement are Foreign Exchange or Currency Exchanges and the influence of national policies. It is an old saying that no chain is stronger than its weakest link. It is important, therefore, that all the links in the chain of international trade be strong if the best results are to be obtained.

Freedom of currencies and freedom of exchange rates is a necessary condition of a free society. Freedom from embargoes and from trade restrictions is also a necessary condition for the successful operation of any international tariff plan. Accessibility to markets in other countries and accessibility to sources of supply in other countries for all international sellers and buyers is an important link in the chain of events in expanding international trade. In other words, the trading countries who may wish to participate in the plan must do so with a free will and a desire to improve international conditions as well as to improve national conditions.

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THE SENATE OF CANADA



Proceedings of the
STANDING COMMITTEE ON
CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be
the most practical steps to further implement Article 2
of the North Atlantic Treaty.

No. 8

THURSDAY, MAY 7, 1953

The Honourable A. N. McLEAN, Chairman

WITNESSES:

Mr. Paul J. G. Kidd, legal counsel, Hiram Walker and Sons Ltd.
Mr. A. R. Mosher, President, Canadian Congress of Labour.
Mr. M. Levinson, Dept. of International Affairs, Canadian Congress of
Labour.

REPORT OF THE COMMITTEE

APPENDIX E

Restrictions, by Continents, on Importation of Spirits from Canada.

CANADIAN TRADE RELATIONS

The Honourable A. N. McLEAN, *Chairman*

The Honourable Senators:

Baird	Duffus	McDonald
Bishop	Euler	McKeen
Blais	Fraser	McLean
Buchanan	Gouin	Nicol
Burchill	*Haig	Paterson
Campbell	Howard	Petten
Crerar	Hushion	Pirie
Daigle	Kinley	*Robertson
Davies	Lambert	Turgeon
Dennis	MacKinnon	Vaillancourt—(30)
Dessureault	MacLennan	

35 Members—(Quorum 7)

*Ex officio member

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Thursday, February 26, 1953:

"That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—"They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(a) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(b) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all".

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry.

L. C. MOYER,
Clerk of the Senate."

MINUTES OF PROCEEDINGS

THURSDAY, May 7, 1953.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 10:30 a.m.

Present: The Honourable Senators:—McLean, Chairman; Bishop, Burchill, Campbell, Euler, Gouin, Haig, Hushion, Kinley, Lambert, MacLennan, McDonald, Pirie and Turgeon—14.

Consideration of the order of reference of February 26, 1953, was resumed.

The following were heard:

Mr. Paul J. G. Kidd, legal counsel, Hiram Walker and Sons, Limited.

Mr. A. R. Mosher, President, Canadian Congress of Labour.

Mr. M. Levinson, Department of International Affairs, Canadian Congress of Labour.

An appendix to the brief read by Mr. Kidd, showing restrictions, by continents, on importation of spirits from Canada, was ordered to be printed as Appendix E to these proceedings.

A draft Report, read by the Chairman, was discussed, amended and adopted.

Consideration of the order of reference was concluded.

At 1:00 p.m. the Committee adjourned to the call of the Chairman.

Attest.

JOHN A. HINDS,
Assistant Chief Clerk of Committees.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Thursday, May 7, 1953.

The Standing Committee on Canadian Trade Relations, which was empowered to enquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 10:30 a.m.

Hon. Mr. McLEAN in the Chair.

The CHAIRMAN: This is the eighth meeting of the Canadian Trade Relations Committee since reference was made to us in connection with a resolution which was introduced in the Senate on February 12, and referred to this committee on the 26th.

We have two very important delegations here this morning. We have the Canadian Congress of Labour, represented by Mr. A. R. Mosher and Mr. Levinson. Mr. Mosher is the president, and Mr. Levinson is connected with its Department of International Affairs. We also have here Hiram Walker & Sons Limited, represented by Mr. Paul J. G. Kidd, legal counsel. Possibly we could call on Mr. Kidd first, and then we will call on the delegates of the Canadian Congress of Labour. If Mr. Kidd will please come forward, he will read his brief, and then we will have a question period, unless there is something a member would like clarified while he reads his presentation.

Mr. PAUL J. G. KIDD: I think each member of the committee has a copy of this. Possibly it looks a little formidable, but I think we can run through it rather quickly.

Hon. Mr. HAIG: Will Mr. Kidd tell us whom he represents and where he is from?

Mr. KIDD: I represent Hiram Walker & Sons, distillers, of Walkerville, Ontario. I am in the law department there. My name is Kidd.

As we stated in accepting the invitation of your Committee to make a submission, we appreciate being asked to do so, and we hope our experience may be of assistance to you.

Hiram Walker & Sons Limited, distillers, of Walkerville, Ontario, was founded in 1858. We have been engaged in the export trade for over 70 years and are continually endeavouring to expand our export business. Total exports of potable spirits from Canada for the calendar year 1952, according to government statistics, were valued at \$54,443,853.00, of which \$44,278,100.00 went to the United States. The problem of trying to maintain and increase our export trade is a daily one. While we are presently shipping some goods to more than 100 countries of the world, to arrive at this number we have to count many countries to which we can ship only small diplomatic accounts, military accounts and ships' stores accounts which are not subject to ordinary trade restrictions. As will be seen the ordinary trade channels in many of these countries are completely closed to us, usually due to import restrictions and exchange difficulties.

The invitation of your Committee asks us to deal with the problem of increased economic co-operation between the NATO countries, and between the NATO countries and other countries of the world. As far as our business is concerned, there is no practical difference between a NATO country and the

others. May I interject that we do well in some NATO countries, we do hardly anything in some others. The same condition applies to non-NATO countries.

NATO COUNTRIES:—Leaving out Canada the remaining NATO countries are as follows: Belgium, Denmark, France, Greece, Iceland, Italy, Luxembourg, The Netherlands, Norway, Portugal, Turkey, United Kingdom, United States of America.

We summarize below the situation with respect to the entry of our products into each of those countries except as to tariffs which are not treated herein since the main obstacle to getting our goods into most countries is not a tariff one. In any event, of course, the tariff question is most complicated. Your Committee will observe the numerous restrictions which are most discouraging to Canadian exporters after so many years of effort and expense in building up markets. Prior to World War II there were no governmental restrictions against importing into any of these countries, at which time we did a steady business in all of them except Turkey.

BELGIUM:—A complete ban had been placed on Canadian spirits but the government has recently begun to issue small import permits.

Hon. Mr. CAMPBELL: I wonder if the witness would elaborate on that, and state where there is a ban by reason of currency restrictions. It would be helpful if he would indicate in each case why there is a prohibition such as the one he has just mentioned.

Mr. KIDD: I think I could say this, that it is always a matter of import restrictions, ordinarily due to lack of dollars. I will mention one or two countries where there is prohibition due to religious difficulties or something of that order.

DENMARK:—There is an import restriction on all luxury articles from Canada with an exception being made for goods sold in stores permitted to sell such goods to visitors having dollars to spend. Inportations of Canadian Whisky for the ordinary domestic trade are not possible.

Hon. Mr. TURGEON: Does that apply only to whisky from Canada, or is it applied to whisky from all other outside countries?

Mr. KIDD: I am not sure I can answer that exactly, but we do find that the Scotch distillers are able to ship to many countries to which we cannot ship.

Hon. Mr. HAIG: But they are in the sterling area.

Mr. KIDD: That is because they are willing to take sterling, of course. I would not be a bit surprised if some Scotch went into Denmark.

FRANCE:—Shipments of whisky and other luxury goods from the dollar area are only purchasable with 3% of earnings on exports from France to Canada and the United States. Notwithstanding the fact that French wines, brandy etc. enter Canada without restriction we are unable to get more than a small quantity of our products into France. Only the fact that some of our affiliated companies have agencies for the importation of wines and spirits from France enables us to make the present small shipments.

GREECE:—No import permits are granted for Canadian whisky for sale on the domestic market.

Since the brief was prepared, just this week, we received intimation from the Department of Trade and Commerce that there will be some relaxation of restrictions on certain goods, including whisky. Whisky may now be imported, but just in what quantities and on what basis we are not yet informed. But there has been a little loosening up in Greece, although perhaps Greece so far as we are concerned is not a very important market.

Hon. Mr. KINLEY: I think you said with regard to France that you yourselves can dispose of some of the wines of that country, and in that way you get some of your goods into France.

Mr. KIDD: Yes, sir.

Hon. Mr. KINLEY: There is something there: that is an individual exchange of products with a country, which is rather novel. If you can get your goods into a country because you exchange products with a firm in that country, that is something new to me.

Hon. Mr. EULER: Barter.

Hon. Mr. KINLEY: Well, that is individual barter.

Hon. Mr. BURCHILL: Would it not be better to let Mr. Kidd present his brief, and when he gets through we can ask him all the questions we want to.

Hon. Mr. KINLEY: Don't get disturbed. I was just asking the question because I thought it was an important point, a new approach. I have the answer, and the answer is, they can do it.

Mr. KIDD: Perhaps I can answer the question this way. We will come to one or two other cases which are somewhat similar.

ICELAND:—From time to time the Governmental Icelandic Wine Monopoly receives dollars enabling it to purchase Canadian Whisky for the Icelandic domestic market. They are able to purchase quantities in excess of their pre-war imports so we have no problem as to Iceland which is a very limited market.

ITALY:—Before granting an import permit for Canadian Whisky, the Italian authorities insist that Canadian Distillers shall purchase for their own use artisan-ware advertising novelties, particularly ceramic-ware, leather-ware, wood-work or straw-work. Italy allows in whisky to the amount of 75 per cent of the value of the novelties purchased. However, speaking for our own company, we have been unable to work out anything, because the samples submitted were too expensive and not suitable for our use.

LUXEMBOURG:—Luxembourg has a complete Customs union with Belgium. Same situation as in Belgium.

THE NETHERLANDS:—Ten per cent of Dutch exporters' dollar earnings may be used for the import of luxuries which dollars are obtainable at a premium of about 50 per cent above the ordinary rate of exchange which limits our sales to a minimum.

NORWAY.—No import licences have been granted for the importation of Canadian Whisky since World War II. The Norwegian Government were approached regarding compensation arrangements for whisky against nitrates but they were not interested.

We shall come to one or two other cases of this compensation type of arrangement, or barter, as someone described it.

PORTUGAL.—Import permits are not granted for luxury goods from hard currency countries. The principle of compensation is recognized, and we have recently been able to arrange one very small shipment of whisky against a purchase of corks for our own use. We understand that there is a 10 per cent tax on all imports made under compensation arrangements.

TURKEY.—Import permits are not made available for luxury articles. We have never been able to export anything to Turkey for the domestic trade as the Moslem religion prohibits consumption of alcohol.

UNITED KINGDOM.—Under the United Kingdom token shipment scheme, token shipments of whisky from Canada are now allowed into the United Kingdom on the basis of 30 per cent of the average value of the imports during the years 1936, 1937 and 1938. For 1951 the rate was 40 per cent.

I shall have something more to say a little later on about this token shipment scheme. We are going to suggest to the committee that that principle be extended.

UNITED STATES OF AMERICA.—No restrictions.

REMARKS:

As pointed out above military forces and members of the diplomatic corps on duty in countries other than their own who have dollars available are allowed to import spirits from Canada for their own consumption and are not subject to restrictions in force in the above markets.

I put that statement in more or less for the record because it may be that we might, for instance, make some shipment to United States consul officials or somebody like that in Turkey, so actually there would be something going in but not through the ordinary channels of trade. This is a very special type of thing.

It will be observed from the above that our business through ordinary trade channels in most of these countries is at present severely restricted. The volume we do is almost negligible compared with what we could do if no restrictions existed. This situation prevails notwithstanding the tremendous gifts and loans that have been made to many of these countries by Canada.

NON NATO COUNTRIES

Coming now to the countries which are not members of the North Atlantic Treaty Organization, we do not think we should burden the Committee further with our difficulties in each and every one of them. However, an example will illustrate the problems and we have also attached hereto a complete Appendix arranged by continents which lists each country and shows the restrictions in effect on the importation of spirits from Canada, which in most cases are such that spirits are completely excluded.

AUSTRALIA.—Australian wines and/or brandy can be purchased in any Province in Canada and yet we are unable to get one bottle of our Canadian Club whisky or any other brand into the ordinary channels of trade in Australia, notwithstanding the intelligent and whole-hearted co-operation we have received from the Canadian Government Trade Commissioner service. Such imports from Canada are prohibited by Australia. When an import of spirits is permitted into Canada from another country, we feel that Canadian distillers and others in the trade are in a strong position to ask that at least token exports of their goods should be permitted to the favoured country. The argument is frequently used that some goods are more necessary for the economy of the importing country than others with the result that our whisky is excluded. However although as pointed out above we were unable to get one bottle of our whisky into Australia, Australia imported 413,364 proof gallons of Scotch and Irish whisky from the United Kingdom in the calendar year 1952.

REMEDIES.—We have repeatedly urged that at least some token shipments should be allowed into these markets so that the sales promotion efforts for many years past would not come to naught but that instead sufficient of our goods would be allowed in to keep valuable brand names alive. If a brand is off the market for some time it is easily forgotten by the buying public and new tastes are acquired. There is involved not only the loss of present sales but a weakening of goodwill for future export trade to the continued detriment of Canada and the loss of markets which were built up at great effort and expense over a long period of years. We urge the Committee to carry this further. Canada is continually trying to increase her exports and spirits have been an important factor in the total. The quantity of such token shipments would not upset the economy of any of these countries. We cannot emphasize too strongly the need for extending the principle of token shipments to all markets for the benefit of Canadian exporters. This plan is now permitted by the United Kingdom and the British West Indies only.

As far as suggesting an overall remedy is concerned it is most difficult to arrive at any complete solution, except for the most obvious suggestion, namely the convertibility of Sterling on which the best minds on both sides of the Atlantic have been working.

We have been doing what we could to improve the dollar situation in the United Kingdom by buying from it as much as possible particularly millions of lead capsules which go over the neck of our bottles, silk thread water-marked paper for labels, quantities of Scotch malt whisky for blending, advertising material and other miscellaneous items.

Furthermore our own distilleries in Scotland are producing and exporting Scotch whisky to many parts of the world, particularly the United States, and are therefore substantial dollar earners for the United Kingdom.

In considering remedies for the problem there is no doubt that the present standard of living in Canada is largely due to the fact that it has found markets abroad for its goods and that it has consistently exported more than it has imported. We believe this concept should have the strong support of your Committee. Except for the years 1950 and 1951 the dollar value of exports has exceeded imports as far back as we can obtain figures.

In concluding this submission we would like to say that we have always received the most helpful and intelligent co-operation from the Department of Trade & Commerce in Ottawa and the Canadian Government Trade Commissioner service abroad in an attempt to solve these difficult problems which occur in so many world markets.

We come now, honourable senators, to quite a lengthy appendix. I do not propose to go into each country in detail unless the committee would like to have me do so.

Hon. Mr. HAIG: I do not think there would be any advantage to go into each one in detail.

Mr. KIDD: No, I think not.

Hon. Mr. HAIG: The problem is how to meet the general question of restrictions. I do not want to interrupt.

The CHAIRMAN: Perhaps this appendix to your brief could be put in as an appendix to today's proceedings of this committee.

(See Appendix E to today's Proceedings.)

Mr. KIDD: I shall be brief in referring to the appendix at this stage. If honourable senators will run their eyes down the right-hand column they will see the initials "B.W.I.L.P." appearing in many places. These initials stand for "British West Indies Liberalization Plan". This is similar to the United Kingdom Import Token Scheme. There is a note in the appendix which I should refer to at this time. It reads:

British West Indies Liberalization Plan: Under this plan, Canadian firms who have exported to the B.W.I. colonies for the years 1946, 1947 and 1948 are permitted to apply to the Department of Trade and Commerce for an allocation for 40 per cent of the average F.O.B. factory value of their own shipments in those years for each colony.

Hon. Mr. KINLEY: This list includes Cuba too, I notice. There are no restrictions in Cuba.

Mr. KIDD: That is not one of the British West Indies. There are several countries appearing on the bottom of page A-1 of the appendix, on which there are no restrictions.

Hon. Mr. KINLEY: How do you account for the fact that there are no restrictions in the case of Turks Island?

Mr. KIDD: That is a good question. I am not sure I can account for it. I suppose they get a few tourists.

Hon. Mr. KINLEY: It is a great salt island. There is a lot of salt there.

Mr. KIDD: It is a tiny market as far as we are concerned.

Hon. Mr. KINLEY: But there are no restrictions there.

Mr. KIDD: I appreciate your question, senator. As I say, I am not prepared to say just why there is no restriction there.

Hon. Mr. KINLEY: Maybe no restrictions.

Mr. KIDD: That is right; Puerto Rico, Virgin Islands, French Antilles. I would be glad to look into that a little more and let you know, senator. They are just tiny amounts that perhaps do not mean a barrier.

Hon. Mr. KINLEY: But it would be interesting to see the communication between that island and the other islands. It may be a centre, you know.

Mr. KIDD: Then on page 2 of the appendix, if I might say a word about South America. We look down to Venezuela, in the middle of the page. This is the only free market in South America. We might consider that pre-war. Now Europe. I do not think there is anything special to say about that. I thought it might be interesting to the committee to refer to Spain, page A-3, as illustrating the efforts we do make. We recently suggested to the Spanish authorities that we would exhibit at the Madrid Spring Fair if they would grant us an import permit in compensation. The reply was to the effect that no import permits can be made available to Canada. In other words, if we had spent \$1,000 on an exhibit of some sort and they let us have 40 per cent of that value—but they would not listen. There is an interesting situation in Sweden. After prolonged negotiations, the Swedish government agreed to grant us compensation for our whiskies against the purchase of wood tops used for corks on a 25 per cent basis which allowed us to make a sale. This procedure is so cumbersome, time consuming and expensive as to make it hardly worthwhile. In fact when we started negotiations we understood that the compensation would be on a 50 per cent basis. This was reduced to 33 1/3 per cent and then to 25 per cent which included freight to Sweden so that our actual basis of compensation worked out at 18 per cent. In other words, by buying \$100 worth of corks from Sweden we could get \$18 worth of our whiskey into Sweden. In the meantime, we built up a nice big file. I think we sent a man twice from Sweden to England, and that was what resulted.

I do not think I have any special comments on Africa or on any of the remaining countries which are dealt with. We went to some pains to dig out this information and it is all here if anyone cares to go over it. Again, I note at the bottom of the last page that military forces and diplomatic people on duty in countries other than their own who have dollars available are allowed to import spirits from Canada for their own consumption and are not subject to restrictions in force in any of the above markets.

I think that concludes our submission, Mr. Chairman.

Hon. Mr. McDONALD: I suppose the trouble with Australia is the lack of dollars?

Hon. Mr. HAIG: They are buying from Britain.

Hon. Mr. KINLEY: What percentage of your production is exported?

Hon. Mr. EULER: Mostly to the States, anyway.

Mr. KIDD: And the bulk is to the U.S. I am not in a position to say what percentage of our plant capacity is devoted to it. I do not know that.

Hon. Mr. KINLEY: I just wanted to see how good a job you are doing. We are dealing here with export trade, and if your percentage on exports now is large, why, you are in a favourable position.

Mr. KIDD: Well, the Dominion Bureau of Statistics records, of course, usually, consistently higher exports from Canada of spirits. This is the D.B.S. publication—the sale and control of alcoholic beverages in Canada; and at

page 28 is set out the exports of Canada of domestic alcoholic beverages. I would just pick a figure out at the end of the war 1945. The exports were close to 18 million, and by 1951 they were almost 47 million.

Hon. Mr. EULER: You were speaking of your distillery or distilleries in Great Britain—I suppose in Scotland.

Mr. KIDD: Yes, sir.

Hon. Mr. EULER: If you have your own manufacturing facilities over there why are you concerned about exporting to Great Britain; is it because there you make only Scotch Whiskies?

Mr. KIDD: Yes, sir.

Hon. Mr. EULER: And you would like to send in some of your rye products?

Mr. KIDD: That is right. Our Canadian Club, of course, has been widely advertised, and pre-war was shipped to so many of these places from which we now find ourselves excluded.

Hon. Mr. EULER: That takes off South Africa also. You send nothing in there at all, but we do buy considerable brandy.

Mr. KIDD: That is true. South Africa Brandy is sold in all the stores.

Hon. Mr. KINLEY: Unfortunately we buy more from them than they buy from us.

Hon. Mr. HORNER: Why is there no Scotch liquor manufactured in England, but in Scotland, and the gin in England? You would not be allowed to manufacture scotch in England?

Mr. KIDD: Scotch is a definite product of Scotland, of course.

Hon. Mr. HORNER: At the time of union the Scotch were to make scotch and England the gin.

Mr. KIDD: That is very interesting, I didn't know that, senator.

Hon. Mr. BURCHILL: I take it from your brief that Turkey is a strictly prohibition country, is it?

Mr. KIDD: Yes sir,—the Moslem religion. I think there was one other of those, Arabia, on page A-5. King Ibn Saud recently imposed an absolute prohibition on alcohol, even for diplomats and foreign employees in the oil fields.

Hon. Mr. BISHOP: Why can we not get into Australia when we buy so much Australian brandy?

Mr. KIDD: Well, we think we should, senator, on the same basis that we get into England. The United Kingdom scheme calls for 30 per cent and while we would like it to be better, still you can keep up some flow of goods and keep your markets alive.

Hon. Mr. CAMPBELL: Did you do any business with Australia before the last war?

Mr. KIDD: Yes, sir. I can't tell you the last time we shipped them anything, but this condition has not always prevailed, no.

Hon. Mr. CAMPBELL: Purely a currency restriction.

Mr. KIDD: Yes, sir.

The CHAIRMAN: Mr. Kidd, with reference to countries that might have a favourable dollar balance, there are different parts of the British Empire that have a favourable dollar balance, but of course those dollars go into the general pool, but are any of those countries with a favourable dollar balance allowing the importation of spirits?

Mr. KIDD: Well, I don't know that I can answer that. Australia might be one of those.

The CHAIRMAN: You do not know whether Australia has a favourable dollar balance.

Mr. KIDD: I should think they might have. As you say, it goes into a pool. It might be that Australia would be very well able to do this.

The CHAIRMAN: I can appreciate your argument with respect to losing trademarks. One case came to my notice where an exporting concern wanted to keep the trademarks alive, and in an effort to do so would make a free gift—no dollars involved at all. They would give it away free if you would take it into your country, so that trademarks could be kept alive. That was turned down some time ago. I do not think they have been allowed to even give their goods away to keep the trademarks alive.

Hon. Mr. EULER: I notice you are making your own arrangements with these countries, and are having a great deal of success. I wondered if you had invoked the service of the Department of Trade and Commerce.

Mr. KIDD: I think I can say, senator, that all this is done with the knowledge of the department, we are working constantly with their Ottawa people and foreign people, and I know most of those chaps when they come back to Canada tour around the various exporters, and we see a lot of them at our office, and I would be very sure that this was known to them.

Hon. Mr. EULER: They do not object to your making your own arrangements if you can make them?

Mr. KIDD: No, not at all, no.

Hon. Mr. KINLEY: I think you have a manufacturing concern in the British Isles?

Mr. KIDD: Yes, we have a large distillery there, sir, Dunbarton on the Clyde.

Hon. Mr. KINLEY: Owned by—?

Mr. KIDD: Owned by ourselves. A separate subsidiary company, of course.

Hon. Mr. KINLEY: You call your whisky Canadian Club?

Mr. KIDD: No, sir; Canadian Club is only made in Canada. We make Scotch over there, of course. The United Kingdom is, as you know, primarily a Scotch market, but there is some Canadian whisky drunk. The whole purpose of this submission is the advancement of trade as far as our Canadian whisky is concerned. Of course we have our Scotch interests, and we have large interests in the United States and so on. That is outside the scope of this presentation: it is exportation from Canada that we are concerned with.

Hon. Mr. HORNER: Do they manufacture their own whisky in Turkey, although the nation is supposed to be a nation of abstainers?

Hon. Mr. HAIG: They do not use any.

Mr. KIDD: I do not suppose there is any used there.

Hon. Mr. HORNER: The wonderful man who modernized Turkey drank himself to death. Maybe he did it with Canadian whisky.

The CHAIRMAN: Maybe that is why they ban it!

Mr. KIDD: Our sales there would not indicate that anybody had done so.

The CHAIRMAN: I notice you mention the Belgian Congo. Lately there has been quite a boom in Uranium ore. They are importing much more than they did two or three years ago, and probably stocks may have run out there.

Mr. KIDD: Well, we would be hopeful.

The CHAIRMAN: I know that exporters are getting in there more now than they did.

Mr. KIDD: I may say we do not let any of this "lie", so to speak. We have agents in all these countries who, for profit reasons, if no others, are constantly working on these subjects.

Hon. Mr. LAMBERT: The volume of your trade with the British West Indies is not as great as it was in 1947-48?

Mr. KIDD: No, it is just 40 per cent.

Hon. Mr. LAMBERT: Are you coming up to your full 40 per cent?

Mr. KIDD: Yes, sir. We use everything we can get.

Hon. Mr. EULER: Have you subsidiaries in the United States? I suppose you have.

Mr. KIDD: Oh, yes, we have quite a large show there. We have a large place at Peoria, Illinois.

Hon. Mr. EULER: Do you make the same kind of whisky there—Canadian?

Mr. KIDD: No, sir. The Canadian whisky is a distinctive product of Canada, and is only made in Canada. But fortunately the Canadian distillers enjoy quite a large market in the United States. The whisky has had a wide acceptance there. But it must be made in Canada.

Hon. Mr. EULER: In competition with yourselves!

Mr. KIDD: Well, yes, in a sense we are, but of course there are other classes and kinds and so on. If we only exported from Canada we might restrict ourselves to a very limited portion of the United States market. There are questions of types and prices and all that sort of thing.

The CHAIRMAN: Canadian Club, your top brand, is only manufactured in Canada?

Mr. KIDD: Yes.

Hon. Mr. CAMPBELL: Was the validation tax a handicap with you while it was imposed, as affecting exports?

Mr. KIDD: Yes, I would say so.

Hon. Mr. CAMPBELL: You are glad to be free of that.

Mr. KIDD: Very much so.

Hon. Mr. CAMPBELL: Could you summarize your submissions by a statement such as this, that you feel that, since Canada has no restrictions against the importation of alcohol and spirituous beverages, we should enjoy a somewhat similar arrangement with all countries to whom we grant these export rights?

Mr. KIDD: I would think that is a very fair statement, senator. But I did not intend to put my case quite that high. We had only suggested here as a beginning that we hope for some extension of this token shipment business, so that at least we can make a beginning, and then of course go on from there.

Hon. Mr. EULER: Is not your difficulty the same as that of other people who want to export goods—shortage of dollars?

Mr. KIDD: Yes, sir.

The CHAIRMAN: Dollar payments.

Hon. Mr. CAMPBELL: But that is not so far as Australia is concerned, because I understand there are greater restrictions against certain luxury goods, including whiskies than against non-luxury goods.

Hon. Mr. EULER: Why have they these restrictions?

Hon. Mr. CAMPBELL: I was wondering why, in the case of Australia, there are such stringent restrictions. It is a prohibition really, is it not?

Mr. KIDD: Well, they get in all this Scotch, Senator.

Hon. Mr. EULER: From sterling areas.

Mr. KIDD: Yes.

Hon. Mr. CAMPBELL: But there is a prohibition against the importation of anything from Canada?

Mr. KIDD: I am not prepared to say quite what products that covers. I know it covers whisky.

Hon. Mr. CAMPBELL: I am speaking of whisky.

Mr. KIDD: Yes:

Hon Mr. CAMPBELL: Complete prohibition.

Mr. KIDD: Yes. You cannot get a bottle in.

Hon. Mr. EULER: Again, the reason for that is shortage of dollars. They can bring it in from Great Britain because that is a sterling area.

Mr. KIDD: I think that is true.

Hon. Mr. GOVIN: Take France: Is the application of the 3 per cent general, or would that apply only to Canada?

Mr. KIDD: Oh, it is very, very small.

Hon. Mr. GOVIN: But does that apply to all countries, or only to Canada?

Mr. KIDD: I say in here, "Shipments of whisky and other luxury goods from the dollar area".

Hon. Mr. GOVIN: Canada and the United States?

Mr. KIDD: Yes. What arrangements they might have with Spain, for instance, I am uninformed on.

Hon. Mr. GOVIN: You have made efforts, I suppose, to increase the percentage?

Mr. KIDD: Oh, we are working on it all the time with our French agents and so on. Of course we often run into impasses.

Hon. Mr. GOVIN: There was one thing in your very good brief which I did not understand very well. On page 4 you refer to the United Kingdom, and on the last line of that paragraph you say, "For 1951 the rate was 40 per cent." What do you mean?

Mr. KIDD: It is now 30 per cent of the average value of the imports in years 1936, 1937 and 1938. In 1951 they allowed us 40 per cent. In other words, it is down 10 per cent from 1951.

Hon. Mr. GOVIN: As regards Belgium, do you think that the war-time supplies are likely to be exhausted in the near future?

Mr. KIDD: The chairman has indicated that there may be some hope there. All I can say is that we will do our best to get all the business we can as soon as we can.

Hon. Mr. GOVIN: Because I know personally that Canadian brands were very popular during war-time, and were almost their only source of supply.

Hon. Mr. KIDD: As the chairman has said, if there are some people going in from Canada to work, it may create a small market.

Hon. Mr. GOVIN: Did you say that Greece was an important or an unimportant importer?

Mr. KIDD: Unimportant. Infinitesimal. I just wanted to make sure I was not in any way misleading the committee, so I referred to that letter just received, as I say, a day or two ago.

The CHAIRMAN: Any further questions by honourable senators?

Hon. Mr. HORNER: Is rye grain used in the manufacture of rye whisky?

Mr. KIDD: Yes, sir, but not exclusively.

Hon. Mr. HORNER: Oh, no.

Mr. KIDD: Under the Food and Drug Act Canadian whisky and rye whisky are synonymous, and some labels, for instance, may be labelled "Rye", some may be labelled "Canadian".

Hon. Mr. EULER: Are not they sometimes labelled "Rye" when they are really made from corn?

Mr. KIDD: I would have to look at the definition to answer that.

Hon. Mr. EULER: "V.O.", which is made in our home town—?

Mr. KIDD: I am quite sure rye whisky is not from a 51 per cent mash of rye, necessarily.

Hon. Mr. EULER: I know that, for example "V.O."—if I may just mention a certain brand made by Seagram's, used to be labelled "Rye", but it is not now, because it is made from corn.

Mr. KIDD: As I say, on that, you could label it as you wished: Canadian whisky would be rye, or rye could be Canadian, because over a period of probably the last twenty or thirty years the choice in Canada seems to be rye or Scotch, so to speak, and "Rye" and "Canadian" have come to mean, in our view and in the view of the department in the recent revision of the regulations, the same thing.

Hon. Mr. KINLEY: Have you the trade mark "Rye" or "Canadian"?

Mr. KIDD: The marks are usually registered just for whisky, so that it will embrace any kinds. When you register a trade mark you attempt to get as broad a coverage as you can.

Hon. Mr. KINLEY: You have not got a trade mark on "Rye", have you?

Mr. KIDD: Some of our old marks might describe it as rye whisky, but even if they did, I think it would cover any type of whisky.

Hon. Mr. KINLEY: "Canadian" is your trade mark?

Mr. KIDD: "Canadian Club" is our best known mark in the export field.

Hon. Mr. KINLEY: The Irish make rye whisky.

Mr. KIDD: I have never heard of it.

Hon. Mr. HAIG: This gentleman has given a fair brief. Personally I want to hear what these labour people have got to say. His problem is, if Australia wants to use her dollars to buy wheat instead of whisky, she is going to do as she likes, and I do not think our government can interfere, and I do not think any recommendation of this committee would affect the matter.

Mr. KIDD: Yes.

Hon. Mr. HAIG: I agree with you that if Australia buys Scotch whisky from Britain they ought to be able to buy rye whisky from us; but they have not the dollars to do all the things they want to.

Mr. KIDD: We know that is the problem, but we do not feel we should be completely excluded. If the United Kingdom and the British West Indies and other markets in the sterling bloc can devise ways and means for these token shipment schemes, we think Australia should be able to do the same, and we would certainly hope that some recommendation would be made, because these things can only be solved on a top governmental level.

Hon. Mr. GOUIN: It is a matter of reciprocity. We buy a very large quantity of their wines.

Mr. KIDD: It is all very well for Australia to say we have no dollars, but obviously they have some dollars.

Hon. Mr. HORNER: On the other hand, they sell very large quantities of wool, mutton and so on to Britain. They are just pretty well "on the spot".

Mr. KIDD: But I wonder if they are in a more serious spot than Britain is, or the British West Indies, where we can get in 30 and 40 per cent.

Hon. Mr. HAIG: Sterling is controlled by Britain.

Mr. KIDD: That almost begs the question. The Australian pound is controlled by Britain, and if Britain will let in our whisky under the U.K. scheme, why should we not get some little consideration in Australia?

Hon. Mr. EULER: If you had a token arrangement it would not mean very much in the volume of exports for you.

Mr. KIDD: Perhaps not, but every little bit helps. You would keep your foot in the market.

The CHAIRMAN: The biggest thing about a token shipment is to keep your trade marks alive, where you have spent perhaps hundreds of thousands of dollars. But there is no money made on token shipments.

Hon. Mr. GOUIN: It would not cost them very much, but it would be very, very useful to us.

Mr. KIDD: That is the situation exactly. We do not feel it would upset any of these countries very much if we had schemes like we have with the United Kingdom.

Hon. Mr. HAIG: I suggested to this man that he could bring a "token shipment", to see whether it is a good or bad idea, but I have not seen any token shipments come our way!

Hon. Mr. BURCHILL: Did you make any substantial shipments to Australia previous to this?

Mr. KIDD: We have had a good steady business. In some markets business was good. In others not so good. But when you enjoy a good steady business you hate to see it chopped off. I am sure many other Canadian exporters are in the same position.

Hon. Mr. CAMPBELL: I think, if all Canadian exporters put forth the same efforts to develop foreign markets as the distillers have, Canada's trade would be in a much healthier condition today. There is no doubt that the manufacturers of alcoholic beverages have done an excellent job in trying to promote foreign trade. I am very much in sympathy, Mr. Kidd, with your problem in Australia, because if you could switch that one business that Canada does with Australia to France, it would increase your shipments to France under the token arrangement you have there.

Mr. KIDD: It certainly would.

Hon. Mr. CAMPBELL: But I think your company is to be congratulated on the efforts they have put forward.

Hon. Mr. LAMBERT: May I ask a related question? Does the Ford Motor Company manufacture cars in Australia, or does it ship them there?

Hon. Mr. EULER: They assemble them there.

Hon. Mr. LAMBERT: I know they do.

Mr. KIDD: I think it is an assembly plant. But they have a big business there.

Hon. Mr. EULER: All we did was to ship the stripped chassis.

Hon. Mr. LAMBERT: They do a good business. That is a business for which dollars must be provided. From anything I have read lately, and particularly in relation to the position of Australia in this international wheat agreement, it strikes me that they are not a very consenting—I would not say a completely consenting—member of the sterling bloc at the present time; and I think they would like to have the opportunity of trading outside if they got the chance.

Hon. Mr. EULER: They have not the dollars.

Hon. Mr. LAMBERT: Most of this sterling bloc always have sufficient dollars if they like to trade outside, but they are tied to a wagon they cannot get away from.

Hon. Mr. HAIG: The fundamental difficulty is that during the second world war Britain borrowed millions of pounds from these countries, and she owes them money, and it is blocked, and she is not going to let up on that block if she can help it.

Hon. Mr. LAMBERT: In the case of India that is not correct at all.

Hon. Mr. HAIG: Britain owes India millions.

Hon. Mr. LAMBERT: It is not true of Belgium, or Norway, or Sweden, and all those other countries.

Hon. Mr. HAIG: The company does not sell much whisky there.

Hon. Mr. LAMBERT: It is not true of Australia either.

The CHAIRMAN: I thank you very sincerely, Mr. Kidd, for having the patience to answer these questions.

Hon. Mr. BISHOP: Before the witness leaves, I would like to ask why the Ontario Liquor Commission excludes from its shelves all American whiskies. You cannot buy American whisky anywhere. Is it a form of protection for the local distillers?

Mr. KIDD: I cannot speak for the Ontario Liquor Commission, senator, but perhaps I could answer you in this way. First of all, the market is extremely limited. We ourselves have listed in Ontario an American-type of bourbon, which has a very limited sale. The taste is not acceptable to the Canadian public.

Hon. Mr. BISHOP: They can judge for themselves.

Mr. KIDD: There have been other listings. There have been some Californian wines, for instance, and I know of two other listings. Again, I say I cannot speak for the Commission, but the limited sale would be the real reason. They do not like to stock brands that they cannot sell.

Hon. Mr. HORNER: I think it is all to the good that there is none to put up for sale.

The CHAIRMAN: Thank you very much, Mr. Kidd. Honourable senators, we will now call upon the Canadian Congress of Labour. I think Mr. A. R. Mosher, the President of the Congress, is going to introduce the gentlemen with him.

Mr. MOSHER: Mr. Chairman and honourable senators, in the absence of Mr. Macdonald, the Secretary-Treasurer of the Congress, who would normally be the man to read our brief to you, Mr. Levinson, who is the Director of our International Affairs Department, will do so. At the outset I think I can say that our brief will not perhaps be as spiritual as the one you have just listened to. I could add that we are naturally interested in the goods that might be exported from Canada to other parts of the world, but our mission particularly in connection with this matter is to sell more good will to the rest of the world than goods.

Mr. LEVINSON: Honourable senators: The Canadian Congress of Labour welcomes the opportunity of appearing before you to present its views on the matters contained in the Committee's terms of reference.

Honourable Senators:

The Canadian Congress of Labour welcomes the opportunity of appearing before you to present its views on the matters contained in the Committee's terms of reference.

Before doing so however, the Congress would like to commend the Senate for initiating an investigation into these matters which are of such vital importance to all sections of the Canadian population. It would like also to express its appreciation for the invitation extended to our organization to participate in your hearings today.

On numerous occasions, the Congress has stressed to the Canadian Government the advisability of soliciting the views of representative Canadian organizations on questions of foreign policy, particularly foreign economic policy. While the Government has recognized the desirability of consulting these organizations on major internal questions, it has rarely done so in the past on vital international issues. The citizens of Canada are being asked to, and will continue to be asked to shoulder the cost of very heavy international commitments. While the Congress believes that Canada must accept her full responsibilities in this field, it also believes that representative Canadian organizations must be given a greater opportunity to express their views on the policies for which this vast expenditure is being made.

It is hardly necessary for the Congress to emphasize its concern with the matters coming within the Committee's terms of reference. From a purely sectional point of view, the Congress is interested because the jobs and prosperity of many of its members and their families are dependent on Canada's external trade. In the last three years ending in 1952, our exports have amounted to approximately a sixth of our gross national production. Our import trade is almost equally important. Clearly, organized labour in Canada has a direct stake in the continued high volume of exports and imports.

Taking the broader viewpoint, as Canadian citizens, we consider Canada's role as a member of NATO and as a trading nation important if we are to resist successfully the threat of communism and maintain a free existence in a peaceful and stable world. We would stress, moreover, that both from the immediate and the long-range approach, the economic stability and well-being of the countries which compose NATO and others which have ties with them are at least as important as military strength. Military strength, after all, is no greater than the capacity of a country to maintain it, and no country can for long engage in large military efforts, even of a defensive nature, where its productive capacity is limited, its living standards low, and its economy unbalanced. Such is the situation in many countries of the world, countries which are our allies, or which we hope will be. For this reason, we welcome the investigation being made by your Committee on the means of encouraging long-term economic collaboration between NATO countries and of other countries in the free world.

The following submission attempts to outline certain proposals which the Congress believes will assist in eliminating long-run economic conflict between the countries of the free world. Special emphasis is given to economic relationships between the NATO countries, but clearly, NATO countries cannot be isolated from the rest of the free world.

THE DOLLAR DEFICIT

One of the basic long term factors making for economic conflict today is the dollar deficit. World War II destroyed a substantial part of the productive capacity of Europe, of Asia. Bitter struggles have led to a further deterioration in the ability of many areas of the world to satisfy their own needs. Rearmament, which is likely to last a long time, has placed an almost unbearable additional burden on the already taxed economies of many countries.

In a sense, one could say that we in North America stand alone. Despite our participation in two world wars within a generation, both Canada and the United States have emerged richer than before. Industrial expansion has taken place at an unprecedented rate. Blessed with great natural resources, the United States and Canada have become the world's wealthiest nations. We alone seem to be able, to a considerable degree, to have guns and butter.

North America sells much more to the rest of the world than it buys. The resulting dollar deficit is, and will probably continue to be one of the major causes of economic conflict in the free world.

In its issue of March 21, 1953, The London *Economist* examined in some detail the sixth annual survey made by the Secretariat of the Economic Commission for Europe. It found that despite the vigorous and in some respects successful efforts at rehabilitation, "Western Europe was unable to eliminate its trade deficit. In 1950 and 1951 it was still running well above \$3,000 million."

With regard to the figures for 1952, The *Economist* made these comments:

"The apparent improvement in Europe's balance with the dollar area in 1952 should not obscure the real problem. The gap was not narrowed through the finding of alternative sources of supply, but merely through a cut in dollar imports—a temporary reduction resulting in a depletion of stocks. The Survey stresses some of the weaknesses in Europe's present dependence on the United States. For instance, the scale of Europe's present exports to the United States is largely the result of America's exceptionally high level of defence expenditure. A fall in this expenditure would have the indirect effect of causing American producers to claim a share in the United States off-shore purchases in Europe.

"The chief potential danger is obviously an American recession and the effects it would have on the sterling area in particular and on Europe in general. Yet, even dismissing this possibility and allowing for small doses of American aid in times of stress, the Survey estimates that Western Europe must make an adjustment of at least \$2,000 to \$2,500 million. In order to strengthen currency reserves and relax discriminatory practices the adjustment would have to be somewhere around \$4,000 million.

In terms of its trading relations with the world at large, the United States balanced its payments in 1952 only because it granted substantial assistance to other countries. This assistance totalled \$5·8 billion dollars: economic aid \$2 billion, military aid \$2·2 billion and U.S. Government purchases abroad \$1·6 billion.

While not nearly of the same magnitude, Canadian exports to the non-dollar world are running substantially ahead of our imports from it. During 1952, excluding trade with the United States, our exports exceeded our imports by approximately a billion dollars. In the same year, the United Kingdom's imports from Canada exceeded its exports to Canada by \$386 million. A similar figure for continental Europe in 1952 was \$322 million.

The Congress recognizes, of course, that a solution for the dollar problem, particularly for Western Europe, does not by any means lie solely within our hands. A more liberal trade policy in the United States would be a factor of great significance, as would the efforts of Western European countries to maintain internal financial stability, increase productivity, and integrate their economies. It is true that the Canadian Government can encourage, to some degree, the adoption of such policies in other countries. However, we have, by and large, confined our remarks to the measures which we believe could be directly undertaken by the Canadian Government to alleviate the dollar deficit.

*Some implications of our growing concentration of trade
with the United States*

In view of the dollar problem, it is disconcerting to note that imports from the United Kingdom are now a substantially smaller percentage of our total imports than before World War II. In the four years ending 1938, our imports from the United Kingdom averaged 19·1 per cent of our total imports, whereas in the last four years ending 1952, the figure was but 11·21 per cent. The trade statistics for Europe reveal a similar trend.

On the other hand, our imports from the United States have increased considerably within recent years. In the four years ending 1938, our imports from the United States averaged 59·5 per cent of our total imports, whereas in the four years ending 1952, the percentage rose to 70·1 per cent.

This development in our import trade has been accompanied by a parallel increase in our exports to the United States. In the four years ending 1952 these constituted an average of 56·7 per cent of our total exports as compared to 35 per cent in the four years ending 1938. What is more, without deliberate counteracting measures, this trend will probably continue. Because of geographic location, similarity of customs and tastes, complementary economic resources, etc., this is not unnatural.

But is it desirable in terms of long-run economic collaboration within NATO? We live in a world starved for dollars and are likely to do so for a good number of years. Unless we inject more dollars into the world currency stream, many of the present dislocations in international trade will persist. In view of this, the Congress believes that our increasing concentration of trade with the United States is not in harmony with our objective of collaboration with other NATO countries. In stationing a substantial part of our armed forces in Western Europe, we have recognized that our security interests are integrally bound up with that area. We might have taken a hemispheric defence outlook but we saw clearly the need for a wider grouping of the free nations of the world. Does not this same affinity of interests within the NATO area extend to the economic sphere? The Congress feels confident that this question can be answered in the affirmative. If such is the case, can we then logically become involved in an increasingly bilateral and restricted trade relationship with the United States? The Congress believes we cannot—particularly in view of the implications of such a course of action on a solution for the dollar problem.

Another factor resulting from this trend in our external trade must be emphasized: the Canadian economy is becoming ever more dependent for its continued prosperity on the United States. We have put many of our "eggs in one basket", and the American economy has not proven itself to be the most stable in the world. What is more, the protectionist influences in the United States are far from weak. The recent United States restrictions on specified Canadian dairy exports are a case in point. Nor do they stand alone. The *Financial Post* (April 23rd, 1953), under the heading "Beer, Whisky, Metals Threat Shows Isolationist Strength," says:

"While President Eisenhower is aiming only at holding the line against increased protectionism in United States, the protectionist forces are beginning to get results—not only in Congress but in the ranks of the Administration itself. The Post is assured by officials who are in direct touch with the President that he personally sees the necessity for liberalizing U.S. trade policy. But obviously not all his Cabinet members do. And when it comes to bucking an important industry like the electrical manufacturers, President Eisenhower showed last week that he clings to a strict interpretation of restrictive legislation like the Buy American Act.

"The Congressional pressures are typified by the Simpson Bill, reviewed in an adjoining column. The general belief here is that the Simpson proposals for increased tariffs on lead and zinc have the support of a new appointee to the Eisenhower Administration, Felix Wormser. Mr. Wormser was a vice-president of St. Joseph Lead Co., of Missouri: he is now an assistant secretary in the Department of the Interior with the Bureau of Mines reporting to him.

"The Secretary of Agriculture, Ezra Taft Benson, is openly encouraging the agricultural protectionists on Capitol Hill, (*The Financial Post*, April 18).

"Now it has been revealed that the Defence Department would prefer to pay an extra \$1.5 million on a \$7 million contract rather than buy electrical equipment from a foreign company, and that the Cabinet will support its preference."

"The latest U.S. attack on Canadian exports is directed at our whisky and beer. Canadian sales last year amounted to \$44 millions for whisky and \$2 millions for ale and beer.

"A resolution has been introduced in the House of Representatives by J. D. Dingell, Democrat of Michigan, to prohibit all imports of "Fermented malt beverages and distilled spirits" from Canada until Canada "permits the importation and sale for consumption of" similar products manufactured in the U.S.

"Mr. Dingell's resolution, based on a complete misunderstanding of the situation under GATT and the Canadian federal constitution, is really aimed at the provincial liquor commissions which do not handle U.S. liquor. It is a less serious threat to Canada than the Simpson tariff bill which already has an inside track in the House Ways and Means Committee and which proposes new restrictions on three other important Canadian exports—lead, zinc and petroleum.

"The Simpson Bill, proposed by Richard M. Simpson, a Republican from Pennsylvania, masquerades as a bill to extend the President's authority to make reciprocal trade agreements. In fact, it turns the Reciprocal Trade Agreements Act into a measure for raising tariffs, and it gratuitously adds special import levies on lead and zinc, and rigid import quotas on petroleum."

Now, since this brief was written, the developments in the European congress would indicate there is perhaps more to fear on this question of the Simpson Bill than was the case when this bill was written.

These developments indicate the growing strength of the protectionist influences in the United States even with the present high level of prosperity. What might their influence be if there is even a mild recession in the United States? Our trade concentration with our southern neighbour may well place us in an unnecessarily vulnerable position in the future. Taken in conjunction with the desirability of giving other countries the opportunity of earning dollars, there is a strong case for a conscious effort to decentralize our present trade pattern.

Suggested Measure to Alleviate the Dollar Deficit of Western Europe

It is certain that we must contribute to the dollar earning capacity of the world if we are to avoid economic conflict in the long run. The latest report of the Organization for European Economic Co-operation makes this abundantly clear. Under the heading "Essential Elements of a Lasting Solution" the report says on page 18:

"Thus the essentials of the solution to be sought clearly emerge. Europe must be made independent of American economic aid by means of sustained expansion which will restore its competitive capacity, increase its dollar earnings and allow it to move towards a stable equilibrium in a world-wide system of liberalized trade and payments. This calls for simultaneous and co-ordinated action on a broad scale by Western Europe and its associated monetary areas and by the United States and Canada. The main responsibility undoubtedly lies with the countries of Europe, since it is clearly the duty of every community to be self-reliant. But it is also clear that the co-operation of the economically stronger members of the Western community, namely the United States and Canada, is indispensable to a solution."

The Congress agrees. We also believe that such assistance is desirable from our own point of view. Here are some things the Canadian Government might do.

Part Payment in Sterling

Because of its inability to find the necessary dollars, the United Kingdom has been forced to curtail its purchases from Canada. True we have been able to shift a proportion of this trade by finding markets in the United States. However, we now have substantial food surpluses in Canada, as is evidenced by stocks on hand of certain agricultural products.

We note, for example, the statistics recently published by the Dominion Bureau of Statistics on grain stocks held in Canada as of March 31st, 1953. These figures reveal that stocks of many grain commodities are now considerably higher than has been the case in the past. The following table bears out the fact:

Commodity	Stocks as of March 31st	Average Stocks
	1953	1943-1952
Wheat	604	380
Oats	309	223
Barley	217	104
Flaxseed	7	7

(1) Figures in millions of bushels.

As the Honourable Chairman of the Committee said in moving the motion to inquire into the matters before you:

"Again, we have lots of surplus food in this country. Would it not be better to take sterling for these surpluses which we can invest, rather than let these surplus foods lie around in warehouses at considerable overhead expense or try to jam food down the throats of our own people by the subsidy method?"

Accepting sterling as payment for a part of our exports to the United Kingdom has been advocated by a substantial number of influential people. We believe that it has much merit. One method would be to set up a counterpart fund with the Canadian Government accepting sterling for Canadian exports and paying the Canadian exporters in dollars. The sterling in the counterpart fund could be used for the government's own purchases from the United Kingdom or the sterling area. It could also be used for Canada's contribution to the Colombo Plan.

Actual payment for the Colombo Plan projects would be made in sterling to Australian, New Zealand, Indian, United Kingdom or other sterling area suppliers and contractors undertaking capital developments in the Colombo Plan area.

I would like to interject here that at the present time, to my knowledge the Colombo Plan projects which are undertaken by Canada must involve the purchase of supplies for those projects from this country. For example, if India is building a dam, and we lend them Colombo Plan funds for certain purposes, they must buy, let us say, electrical equipment for the dam from Canada. While the Congress suggests that Canadian exporters should have the privilege of supplying that kind of material we do not think, especially at this particular point when the sterling crisis is acute, that the sterling suppliers should be excluded completely. Some leeway should be exercised in terms of letting Australia, New Zealand and the U.K. suppliers provide some materials under the Colombo Plan.

The amount of sterling to be used for the purpose would be established by the amount of Canada's contribution to the Colombo Plan—which we hope would be considerably greater than now. The effect of such an operation would be threefold. First, it would increase Canadian exports to the United Kingdom, without adding to their dollar problem. Second, it would aid capital expansion in the underdeveloped areas; third, it would increase exports for the sterling countries providing the capital equipment.

Government Purchasing:

In increasing European imports, more attention should be paid to our pattern of government purchasing. It is interesting to note, for example, that during the fiscal year 1952, Canadian Government departments spent approximately \$22.00 in the United States for every \$1.00 they spent in the United Kingdom.* We appreciate that a major reason for this is the Government's decision to standardize much of its military equipment with that of the United States. We are certainly not competent to discuss the merits of one kind of rifle or one tank as against another. Judging from the controversy on these questions, there is room for reasonable doubt as to whether United States military equipment is in all instances the best available. In any event, it seems apparent that military expenditure will constitute a major component of Government buying for some years. The Congress submits that the Government should investigate the possibilities of shifting more of these military purchases to Europe. A similar investigation should also be made into non-military purchases. While the Congress cannot assess the quantitative results of a deliberate shift in government purchasing, it believes it would be considerable. We note the following quotation from the United Kingdom Board of Trade Journal of February 16, 1952:

"if we had obtained only two per cent of all United States governmental purchases in 1950, our total exports to the United States would have doubled."

Productivity Grants or Loans:

One of the basic reasons European exporters have had difficulty in selling to the North American market is the inefficiency of many European industries. Between the wars, monopolistic practices were rampant in many European countries. Reinvestment and modernization of industry proceeded at a slow rate. As a result, capital and machinery were running down and becoming inefficient. World War II accelerated this process.

After World War II many countries in Europe recognized the need for increased efficiency. Plans such as the Monnet Plan in France were introduced in order to raise productivity. Heavy capital expenditures which constituted a severe strain on the economy of Western Europe were made for this purpose, for Europe knew full well that it had to revitalize its economy if it were to live.

Rearmament has slowed down this development. Available resources have had to be diverted from peace to defense uses. Yet the need for greater productivity remains. This applies with equal force to the inefficient agriculture of many European economies. The latest report of the Organization for European Economic Co-operation stresses that Europe must become less dependent on non-dollar sources of food and raw materials. Clearly, an increase in agricultural productivity is required to accomplish this objective.

We do not disagree with the new slogan of "trade, not aid." But Europe must be able to trade before we can dispense with all forms of aid. So it must continue to increase productivity. But, the 1952 report of the O.E.E.C., says, "Production in the various countries of Western Europe is either not rising or rising at a relatively modest rate."

The American Government has and is making productivity grants to Europe. Canada should do likewise. One way to do this is granting machinery or capital equipment. Certainly, agricultural machinery is badly required as are other types of capital equipment. This kind of assistance, would be invaluable in increasing Europe's ability to pay its way in the long run.

* United Kingdom and United States suppliers and Contractors receiving \$10,000 or more from Canadian Federal Departments:—*Public Accounts 1952.*

Western Europe is making efforts to rationalize its economic structure through economic integration. The Schuman Plan has been a notable accomplishment in this direction. The free labour movement of the world, represented by the International Confederation of Free Trade Unions (of which the Congress is an affiliate) has consistently supported these developments.

We believe the Canadian Government should give every encouragement to these efforts. In this regard, we would draw attention to the plans of the Schuman Plan High Authority for capital investment and modernization of the steel and coal industries of Western Europe. It is our understanding that capital will be required from outside Western Europe in order to fulfill these plans and we would suggest that the Canadian Government investigate the question of providing assistance for this purpose.

Immigration from Western Europe:

Another means by which Canada can encourage long-run economic collaboration with NATO countries is through a high level of planned immigration. Canada can and should make a contribution to the NATO countries by absorbing some of the surplus population of countries like Italy, Belgium and Holland. The fourth annual report of the Organization for European Economic Co-operation (*Europe—the Way Ahead*) makes the following comment about Italy, for example: "The population surplus is the most acute of Italian problems. The number of totally unemployed is estimated at present at about 2.1 million or about 10 per cent of the civilian labour force...The Italian Government does not expect that the unemployment situation will change greatly over the next two years unless emigration increases... However far it may be possible to go beyond present targets for employment and output, the greater part of the unemployment cannot be eliminated in the near future. Emigration on a large scale remains necessary and Italy is entitled to more help from Member countries in this direction."

Quite obviously emigration would relieve over-populated countries like Italy from the burden of caring for their unemployed, reduce social security costs, lessen the need for various imports, release more goods for export and otherwise facilitate recovery. Canada has been accepting immigrants since the end of the war. There is good reason to believe that there will be room for more immigrants in the near future at least. Immigration will at the same time render a service to NATO countries and create internal markets in Canada. However, we would emphasize that such immigration plans must carry with them the safeguards necessary to protect the Canadian people against any adverse effects of dislocation.

International Commodity Agreements:

It is well known that Europe is largely dependent on imports for its supplies of food and primary raw materials. In the long run, a stable price structure for these commodities would be of great benefit to the European economy. This is obvious to those who observed the repercussions on Europe of the inflation in primary raw material prices which followed the outbreak of war in Korea. The progress which many European countries had made so laboriously since World War II in reducing the deficits in their balance of payments was all but wiped out in a few months because of the rapid rise in prices. This instability in price levels of major primary products is detrimental to the world at large. It is particularly injurious to the economy of Europe.

The Congress submits that much can be done to remove this price instability through an extension of international commodity agreements for a variety of primary raw materials. We recognize that such agreements are not easily

concluded. However, we believe that the Canadian Government should seek to give leadership in this direction. Despite the difficulties involved in their operation, international commodity agreements provide reasonable guarantees to producer and consumer.

Considerable success has been achieved by the "commodity groups" of the International Materials Conference. This organization, which was set up some months after the outbreak of war in Korea, has attempted to allocate scarce supplies of certain commodities at reasonable prices. From what the Congress has been able to ascertain, the "commodity groups" within the International Materials Conference have worked fairly satisfactorily.

The Congress noted the suggestion made by the Canadian Federation of Agriculture to this Committee with respect to international trade in farm products. We support their proposal for a world agency which would deal with the "distribution of periodic agricultural surpluses in such a manner as to cause the minimum disruption to world trade in these products." While the Congress believes that a system of inter-governmental commodity agreements is desirable from a long-run point of view, we feel that such an agency can make a positive contribution to world economic stability.

Assistance to the Economically Underdeveloped Countries:

The Canadian Congress of Labour has, on numerous occasions, emphasized the vital importance of assistance to the economically underdeveloped countries. We have continually urged the Canadian Government to increase our contributions. The \$25 million a year which Canada is giving to the Colombo Plan is not enough either in terms of the need or in terms of our capacity to give.

We have said that the \$25 million allocated for the Colombo Plan is too small to the receiving countries; it is even getting smaller. For the fiscal years, 1951-52 only India and Pakistan shared our contribution to the Colombo Plan. For the next fiscal year, 1952-53 India, Pakistan and Ceylon will share it. As you honourable senators well know, the Colombo Plan includes within its scope more than India, Pakistan and Ceylon, and that it extends for example to Burma and North Borneo; I understand there is a likelihood that Indonesia will come in. If those additional countries are to share the \$25 million which Canada has set aside, it is quite obvious that India's share will be considerably less than it was two years ago, and the same would apply to Pakistan.

While I am interpolating on this matter, I would like to say that we have done something on the Colombo Plan which might well be questioned. For example, in 1951-52 India was forced to accept \$10 million, of its Colombo Plan contribution of \$15 million, for wheat. The purpose of the Colombo Plan was obviously for capital development. However, we do not blame the Indians for taking the wheat, for obviously they were starving and had to have it. What we do suggest is that the Canadian government might well have made an additional allocation outside the Colombo Plan to cover the wheat in order that the Indians, who are getting rather a miserly amount in terms of capital development required, would not be forced to reduce that amount which was set aside for them in the Colombo Plan for capital development.

The recent budget is proof, if proof be needed, that Canada has money to spare for this kind of international co-operation. During the last world war Canada made gifts and loans in the name of "mutual aid." There is still a very real need for such aid, and to be effective it has to be made generously. Let us not deceive ourselves that by giving to the Colombo Plan, Canada is engaging in a pious act of charity. It is nothing of the sort. It is to help ourselves that we need to help others, whether it be in the United Kingdom, France, Pakistan or elsewhere.

The Congress read with great satisfaction the remarks of the Honourable Chairman of this Committee, when in moving the motion to investigate the problems before us today, he said:

We certainly do a good job in sending munitions abroad. I notice a defence department report states that Canada has shipped military stores, ammunition and other armaments worth \$264 million to North Atlantic Treaty Organization countries. *I agree with Dr. Keenleyside and the former Agriculture Minister of Ontario, Mr. Kennedy, that we are strong on munitions for poor nations and weak on food. Empty bellies certainly appreciate food as much as guns:* besides, we have a surplus of food and would get sterling for a good part of this surplus if we wanted to, whereas we do not have a surplus of munitions, unless we manufacture them at the taxpayers' expense. It is unquestionably a good thing for security purposes that we are in NATO, and we must pull our load; but we are told the ratio of our aid is \$100 for munitions to \$1 for food, etc.

The Congress need not labour the political aspects of this question. Suffice it to say that in the vast continents of Africa and Asia, and the Middle East and Latin America, there is a deep desire for material betterment, for industrial advancement, for social progress. Our totally inadequate economic aid allocation does not seem to recognize these aspirations. Unless we realize this soon and act, the Iron Curtain may encompass a greater area than it now does.

Assistance to the economically underdeveloped areas is more than a political problem. It is also an economic one, closely allied with the question of long-run economic collaboration. We quote again from the latest report of the O.E.E.C. (Chapter XI) "Policies Concerning Under-Developed Areas" (Page 182):

The delays that such difficulties imply make it all the more essential that the necessary efforts be begun as soon as possible. Increased dollar investment for the development of under-developed areas, in order to ensure directly or indirectly the production and export of materials needed for the long-term expansion of the United States economy, will not only alleviate the dollar problem in the short run, but strike at root causes of the present lack of balance in international trade and payments. In areas where standards of living are pitifully low, and sometimes declining as the growth of population presses on the means of subsistence, it will provide a necessary means of breaking the vicious circle, creating an atmosphere of hope, and reducing the very great risk of political and economic disintegration.

In viewing the matter from an economic standpoint, it may well be advisable to relate it to the problem of the dollar shortage. Clearly, the desire for capital expansion in the underdeveloped countries has placed a great strain on the overburdened economies of Western Europe. On the one hand, they have to sell to dollar markets. On the other hand, they are being pressed to provide the goods necessary for capital expansion in the underdeveloped areas. The United Kingdom and France, for example, have been forced to supply the capital needs of their territories in Africa and Asia. Moreover, the United Kingdom has, through its blocked sterling balances, supplied durable goods to certain Asian countries for similar purposes.

An increased Canadian contribution for economic assistance would go a long way, both to relieve the economies of Western Europe and to fill the needs of the underdeveloped countries. It would inject dollars into the world currency stream so that people could pay for our exports. Second, it would allow Western Europe to divert exports to dollar areas. It would have an even greater lasting

effect. Expansion of food products and raw materials requires an adequate supply of capital. If this is forthcoming the economically underdeveloped countries will be able to increase their production of such materials and thereby their sales to dollar areas.

This kind of assistance will be of great benefit to Canada itself in the long run. By contributing to the industrialization of this vast area of the world, we are contributing to a higher purchasing power for the millions who live in it. It follows that we are building up markets for our own products. Since our economic society has not yet proven itself capable of distributing its products as well as it can make them, this is no insignificant factor.

It is our considered opinion that private capital will not or cannot fulfil the needs of the economically underdeveloped areas. It is apparent from the thinking of many Canadian and American business men that they are reluctant to shoulder the risks of foreign capital investment. Investment opportunities in North America have been such that they have little or no desire to go far afield. Added to this is the attitude prevalent in many of the economically underdeveloped countries with respect to foreign capital. The experience of the past has led them to associate private foreign capital with the abuses of imperialism. Our participation in the International Confederation of Free Trade Unions has brought us into contact with trade union leaders around the world. Discussions with them and others have convinced us that the job of economic assistance will either be done in large part through government machinery or not done at all.

In this connection, the Congress would like to draw particular attention to the recent United Nations action in establishing an International Development Fund. The purpose of the Fund will be to obtain capital for development of the less industrially advanced nations. The money will be utilized in conjunction with the U.N. Technical Assistance Programme. Countries such as Canada are expected to provide the necessary resources. The Congress does not wish to minimize the Colombo Plan or other foreign economic aid programmes. However, we would stress the desirability of working through the United Nations and its Agencies wherever possible. Only in this way can we strengthen the machinery of world government. We would, therefore, urge the Canadian Government to support generously the recently constituted U.N. International Development Fund.

Full Employment Programme:

It has often been said that one of the greatest threats to long-run economic collaboration will come from an American depression. Even a minor depression in the United States can have far-reaching effects because of America's role in the world's economy. Already the fear is being expressed that trade in the United States may slump, even before the end of the year. It seems to us that a depression, minor or major, is the last thing in the world that should be permitted to interfere with the international co-operation which NATO is accomplishing. Climate is beyond our control. Soviet policies are similarly not of our making or choosing (although these we can at least influence). However, we can certainly so arrange our economies as to preclude a breakdown in external trade, in employment, in investment, and so on, which is precisely what the Soviet bloc is hoping and waiting for.

Both as an immediate and as a long-range programme, the United States, Canada and the rest of the NATO countries, and, for that matter, those other countries with which they have close ties, must get together and make full employment a continuing characteristic of the free world. Naturally, organized labour is most concerned about this but we submit in all sincerity that full employment, or the lack of it, is a measure of everyone's prosperity and not just the working man's.

We do not for a moment imagine that full employment can be obtained by figuratively waving a wand. On the other hand, it is not merely the stuff dreams are made of. Both Canada and the United States have had full employment during the war and for a time afterward. Even now the level of employment is high although fluctuating and spotty. Economists—and governments—now know much more about maintaining the economy at its optimum level of production (and consumption) than they did during the 1930's. We need hardly amplify the economic potential which NATO and connected countries represent: A vast pool of manpower, much of it literate and highly skilled, great industrial development and know-how, almost incalculable natural resources of the greatest variety. Surely, with assets like these, there is no excuse for a breakdown in our economies, particularly at the present time. We believe that dedication to the task of maintaining full employment on this continent and in Europe, will go a long way towards answering the question which concerns this Committee.

SOME IMPLICATIONS

If liberalisation of trade and an increased volume of imports from Western Europe and from other countries lead to hardship for some workers and communities in Canada, the Government must take action to counteract such effects. Some measures we have suggested may well involve increased burdens on the people of Canada. If these are to be borne, increased efforts must be made to inform the people of the reasons for such expenditure. What is more, these burdens must be borne on the basis of equality of sacrifice by all sections of the population.

The Congress contends that a programme of the type proposed will involve a direct and positive role for the Government. New policies in our trading relationships cannot but have a profound effect on a nation such as Canada which depends to such a high degree on external trade.

The Congress believes that if workers are displaced as a result of increasing imports they should be given some form of supplemental income during the transition from unemployment resulting from increased imports to re-employment elsewhere in the full-employment economy. Such income could very well be in the form of supplementary unemployment benefits to be granted to the worker. While he is receiving this supplemental income, he should be given the opportunity to develop new and different work skills through re-training programs. He must also be given the opportunity, if necessary, to be relocated and re-housed in another community where employment opportunities are available.

In addition, federal action must be taken to aid specific communities by enabling them to shift their productive facilities to the production of goods which are needed on the Canadian market. New companies and new industries should be encouraged to locate in these communities. The national Government has a responsibility to the community to enable it to maintain employment opportunities.

Any serious attempt to implement Article 2 of the North Atlantic Treaty will have a direct and important bearing on the social and economic welfare of many Canadian citizens. This leads us to propose the establishment of a consultative body composed of representative Canadian organizations—farm, labour, business, welfare, etc., which would consider questions, particularly economic questions, connected with Canada's role in the North Atlantic Treaty Organization. Such machinery would permit continuous consultation with organizations which represent large sections of the Canadian people. While in no way minimizing the role which your Committee is fulfilling in this regard, the Congress believes that some more permanent form of consultation on these questions must be worked out. If the economic functions of NATO really develop, such machinery will be imperative.

The CHAIRMAN: Very good. Now, members of the committee, the meeting is open for questions you might like to ask the witness.

Hon. Mr. EULER: Mr. Chairman, I must compliment the gentleman who presented this brief; it is very comprehensive, and in many respects I agree with it; in some other respects, perhaps I do not. I would like to make one comment and ask one question. I noticed in the brief, and rather to my mild surprise, that the congress is in favour of increased immigration—planned immigration, I think they call it, and I agree with that altogether. I notice he mentions Italy, Belgium and Holland. There are two other notable exceptions, Great Britain for one, which is perhaps taken for granted. I would like to have his opinion as to whether we could not get some very worthwhile immigration, now perhaps that antagonisms and prejudices resulting from the war are disappearing, fortunately, from Germany, and whether the congress would be in favour of a substantial number of German immigrants coming into Canada.

Hon. Mr. HORNER: That was what I was going to ask.

Hon. Mr. EULER: There are some millions of refugees taken over in some parts of Poland. We have in Canada a great many people of German birth or extraction. I am of German extraction, not of German birth; and I think they have developed into the very best class of Canadian citizens. Do you not think that it might be well to admit to Canada some of these people that I think would become very good Canadians and producers?

Mr. LEVINSON: Yes. I would only like to say, senator, that the countries we have mentioned, Italy, Holland and Belgium were only used because of very heavy over-population in those countries.

Hon. Mr. EULER: That is true of western Germany now.

Mr. LEVINSON: Yes, and we have presented to the Senate Committee which was investigating the question of immigration, a complete brief of our position on that point. I could have attached it, but I did not think the honourable senators would find it advisable. On the particular point which you mention, I would simply perhaps ask Mr. Mosher if he would like to answer it. I have personal views on it.

Mr. MOSHER: Well, gentlemen, I think that the only reason those three places were named and the others left out is, as the senator has said, we take it for granted that Canada is always glad to have immigrants from Great Britain and from Germany; and I think that we must all agree that those who have come to us from these countries have helped to make Canada as great as it is today.

Hon. Mr. HORNER: I wondered, too, because I wanted to ask that question. If you look up the names of the men in the past war from my province of Saskatchewan—I can give one case of a German family at Moose Jaw that had six sons in the army here; and as far as that is concerned I think that there is a greater need in Germany than in any of the other countries that you have mentioned because of the immense numbers flocking over from eastern Germany, and they have been forced to remain under communism because of the impossibility to find houses, let alone employment. So that I would think their need is even greater—at least, they are able to take care of their own in their own country.

Mr. MOSHER: I think, however, that we must be even more careful in our immigration policy in respect to Germany, where thousands of these people are coming over from the communist ridden part of the country, because I have no doubt in my mind, and I am sure the members of the congress who have given study to this problem have it in their mind, that all that are coming over are not coming just to be free citizens of the free world, they are coming

over in large numbers, I am quite satisfied, to help give propoganda to the kind of idealism that they have in Russia and their satellite countries. I think it calls for great caution in allowing people to come from that country in a mass way, and travelling through countries overrun by the communists.

Hon. Mr. HORNER: But I would not agree for one minute that there is any greater danger from Germany of that kind of thing than any of the three countries you have mentioned here.

Mr. MOSHER: It is a matter of opinion; we have not the same influx.

Hon. Mr. HORNER: We have had very few Germans come.

Hon. Mr. LAMBERT: Is it not true that in the movement of peoples from one country to another in the past century it has been greater after wars, and as a rule has accompanied the greater movement of goods from one country to another? In other words, a period of great trade expansion and freer trade and flow of goods has been accompanied by immigration rather than during periods of economic nationalism when people are isolated?

Mr. LEVINSON: I think that dislocations from war would result in a higher flow. There is no doubt that some countries in Europe will continue to find the population problem a more acute one as the result of a natural increase taking place. I think that while there is a special problem in the post-war period in terms of reconstruction, there is a long-term problem in terms of population, density in Europe.

Hon. Mr. LAMBERT: But is it not so that in the past the settlement of this continent by migration from Europe was pretty largely coincidental with the period of free trade which existed throughout the world from the middle up to the end of the last century.

Mr. LEVINSON: That is a point, but I would not like to comment on it. I have no figures.

Hon. Mr. LAMBERT: My point is the movement of goods and freer trade is coincidental with the movement of people.

Mr. LEVINSON: Yes.

Hon. Mr. HORNER: I might say to the witness on this suggestion that we might give away food—and I agree that possibly there is a place for it—that by reason of the strike of loaders in Vancouver some millions of bushels of grain have spoiled because it was left lying on the ground and was not handled properly.

Mr. MOSHER: Mr. Chairman, may I answer the Senator by saying that I hope he is not one of those people who say that when a local group of workers go on strike that they are the only people who cause grain to spoil. It is not altogether because of a strike.

Hon. Mr. HORNER: But a solution should be found.

Mr. LEVINSON: My understanding is that the Prime Minister has suggested that it was not the fault of the workers but the fault of the company.

Hon. Mr. LAMBERT: We are getting a little off the subject.

Hon. Mr. KINLEY: Mr. Chairman, I agree with Senator Euler that immigration is perhaps the most important factor in Canada's development and perhaps in her trade. I am glad to hear a direct expression of opinion on this point from the Congress of Labour, because it is generally thought that they are against immigration. Their stand now is all to the good.

You suggested that we accept part sterling for the sale of our goods to Europe. What would be the mechanics for the carrying out of that scheme?

Mr. LEVINSON: Let us say that we have a surplus of agricultural products. We would send those agricultural products to the United Kingdom, the

exporters would be paid in dollars by the Canadian government, and we have suggested that a counterpart fund be set up in the United Kingdom, in sterling, which counterpart fund could be used for the purchase of material for the Colombo Plan or for the purchase of our government in the United Kingdom. We have suggested the device of a counterpart fund of that kind in conjunction with the Canadian government paying the Canadian exporter.

Hon. Mr. KINLEY: You advocate subsidizing export trade?

Mr. LEVINSON: No; we advocate that the Canadian government pay dollars to the Canadian exporter, and that a counterpart fund in sterling be set up for purchases in the sterling area and under the Colombo Plan.

Hon. Mr. KINLEY: Suppose I am an exporter, or a farmer, and the government agrees to accept part sterling for my goods. If the government accepts payment in sterling and pays me in terms of dollars, it would not be satisfactory. The United Kingdom wants our money in preference to their own.

Mr. LEVINSON: It would not affect the Canadian exporter, who would be paid directly by the government in Canadian dollars.

Hon. Mr. KINLEY: But the government must take up the slack between the two currencies.

Mr. LEVINSON: Yes; but it can use the sterling in a number of ways. This is one device which would enable us to sell to the sterling area and also increase our sterling purchases.

Hon. Mr. KINLEY: But the government would get only part of the value of dollars by taking sterling.

Mr. LEVINSON: I am not clear on the point you are making.

Hon. Mr. KINLEY: If the government takes sterling in payment, it is not worth as much as our dollars.

Mr. LEVINSON: Certainly it is, if we use it to make purchases in the sterling area.

Hon. Mr. KINLEY: But somebody must take up the slack.

Mr. LEVINSON: We simply use it, let us say, as for part of our government purchases in Britain or under the Colombo Plan.

Hon. Mr. KINLEY: But our price is in dollars.

Mr. LEVINSON: The price transaction would remain constant; it is an equivalent value.

Hon. Mr. KINLEY: For instance, I had a cable this morning about goods I have purchased in England, and they demanded Canadian dollars. They told me what the price was in sterling, but they want my Canadian dollars. Now, if we accept their sterling, we are taking a depreciated currency and somebody must pay the difference.

Mr. LEVINSON: No; we would be given payment in dollars, and a counterpart fund in sterling would be set up. It would help to increase their supply of dollars.

Hon. Mr. KINLEY: But our government does not produce anything; it must buy goods from the producer and pay him for them in Canadian dollars.

Hon. Mr. BURCHILL: But the witness is talking about surplus, is he not?

The CHAIRMAN: Yes.

Hon. Mr. BURCHILL: As to the setting up of the counterpart fund, as suggested on page 8 of the brief, and that the government should use it to purchase in the United Kingdom, would that not decrease the dollar purchases in Great Britain? Today the Canadian government is giving them their much-needed dollars; and if we substitute sterling for those dollars, it would defeat its own purpose.

Mr. LEVINSON: No; we would be paying them in dollars.

Hon. Mr. BURCHILL: Yes, but you are proposing to form a counterpart fund with sterling.

Mr. LEVINSON: Yes.

Hon. Mr. BURCHILL: And the government is going to use that money to purchase goods in Britain, for which they are now using dollars. Do you see the point I am making?

Mr. LEVINSON: No.

Mr. MOSHER: I think one point Mr. Levinson has made has been overlooked; that is, we have said in our brief that while we think we should export much of our goods to help the Colombo Plan, that we should not be stuck at that. If we can buy in the sterling areas and supply the sterling areas, as we would do through this fund, it would cause no problem; it is merely a bookkeeping transaction.

Mr. LEVINSON: That would be one use for the counterpart fund, for sterling purchases.

Hon. Mr. CAMPBELL: Mr. Chairman, I should like to try to get clear on one point. I agree entirely with what Senator Kinley has said. If I understand your proposal correctly, you are suggesting that we set up a new method of trading with the United Kingdom, by which we will sell goods to them and accept, in part payment, sterling?

Mr. LEVINSON: No, I am not suggesting a completely new method. I am suggesting a way of dealing with certain commodities. Let us say, for example, that in one year our sales to the United Kingdom were \$200 million and their exports to us were \$100 million. As regards the balance of payments in our favour, we might say to them, "Some of our agricultural commodities are in surplus supply, and you want them, but you cannot buy them because you have not enough dollars. Therefore, for these agricultural products we will sell to you, instead of paying us, as you normally do, in dollars, we will pay our own exporters \$100 million for the products sold to you, and you will set up a sterling counterpart fund, which we will use for government purchases in Britain; for example, purchases under the Colomobo Plan".

Hon. Mr. CAMPBELL: What would that do other than, first of all, granting credit to the purchaser to the extent of the sterling you accept? That is in the first place. It is a loan just as if you lent them money. In other words, the Canadian Government would be lending money to cover that sterling, which money would be used to pay the producer.

Mr. LEVINSON: No. It would be one means of helping to assist in greater purchases from Canada by the sterling area.

Hon. Mr. CAMPBELL: In the first instance it is nothing but a loan.

Hon. Mr. HAIG: No.

Hon. Mr. CAMPBELL: Let me ask you this question: when you do that first transaction, the Canadian Government would then have a sterling account in the United Kingdom?

Mr. LEVINSON: Yes.

Hon. Mr. CAMPBELL: And they would have advanced the dollars to the Canadian exporters?

Mr. LEVINSON: Yes.

Hon. Mr. CAMPBELL: And to that extent they have advanced dollars against sterling deposits.

Mr. LEVINSON: You substitute dollars for pounds. It is not an advance, it is an exchange.

Mr. MOSHER: There is a tremendous difference if you buy from the United Kingdom articles which are required, say under the Colombo Plan.

Hon. Mr. CAMPBELL: We are not at that point yet. In the first instance you suggest the Canadian Government would accept sterling and bank it in England. Are you suggesting that that should be convertible sterling or blocked sterling?

Mr. LEVINSON: Blocked sterling.

Hon. Mr. CAMPBELL: To be used for some specific purpose?

Mr. LEVINSON: To buy in the sterling area.

Mr. MOSHER: The purpose is to be able to sell something in the sterling area.

Hon. Mr. CAMPBELL: If the Canadian Government the next day buys electrical machinery in the sterling area for use anywhere, and pays for it in sterling, nothing has been accomplished, has it?

The CHAIRMAN: Excuse me, but the surplus has been got rid of.

Hon. Mr. CAMPBELL: Whereas today they might be buying the same article for dollars in the sterling area.

Mr. LEVINSON: But it can be used as a means of diverting trade to the sterling area. In other words, if you block it, you can suggest that we have to buy goods in the sterling area.

Hon. Mr. CAMPBELL: All you are suggesting in fact is that we buy a little more in the sterling area for dollars rather than have the purchases made in the dollar area.

Mr. LEVINSON: Yes. That is one means of doing it. It is one means of enabling us to buy in the sterling area, and at the same time, promoting the sale of our surplus agricultural products to, say, the United Kingdom.

Hon. Mr. CAMPBELL: You do not accomplish anything unless you have sterling convertible. That is really what you need.

Mr. LEVINSON: No: it is inconvertible sterling in a sense. We have to buy from the sterling area. But, by agreeing to a deal of that kind, we get rid of some of our agricultural products, for example.

Hon. Mr. CAMPBELL: It is not as simple as that.

Hon. Mr. HAIG: I would like to make a couple of comments. First, I am very happy to sit here and listen to a brief by the Canadian Congress of Labour; for one reason,—and I want to emphasize it,—the magnificent fight that that organization has put up to drive communism out of its ranks. The rest of Canada is under a great debt of gratitude to them for that fight. Number two: I do not think that I can agree with many things in this brief, but I will say this for the brief, that for the things they have advocated they have, in my judgment, put up the very best case they could. There has been some emphasis on a scheme of trading. But we have tried it; unfortunately for Canada we have tried it. About a year ago last February the United States had an embargo against our cattle, so we made a deal whereby we would sell so much beef to Great Britain, taking from them in payment an order on New Zealand for their beef in place of it; then we would sell the New Zealand beef to the United States. We invested many millions of dollars in that proposition. On paper it seemed a very fine idea, but would you like to tell me how much we lost on that transaction?

Mr. LEVINSON: I don't know, Senator.

Hon. Mr. HAIG: Four times as much as we put into it; about \$22,000,000. I am not saying that that is the scheme you propose, but it indicates the difficulties under present conditions. Senator Campbell is quite right: if you

under this deal sell some two hundred million dollars worth of wheat, or whatever it happens to be, to Great Britain, and they pay a hundred million dollars in American currency and a hundred million dollars in sterling, that sterling cannot be used here. In the meanwhile, to pay the farmers for this wheat, the government has got to lend, either itself or by somebody else, one hundred million dollars, for the purchase of products under the Colombo Plan. So that is good so far. But if there were no such proposition, we would have to buy goods for the Colombo Plan and would use our Canadian dollars for the purpose, and the British would take that and have that much money to use, instead of sterling, to buy our goods. The situation can be cleared only by a guarantee which will make sterling convertible, but I have never heard from anybody how that can be done. Until you do that you cannot help our trade, although you can assist a little with individual deals. As a matter of fact we have not a surplus of grain. The only surplus we have is in commodities where, as in the case of pork products, we went into the market and purchased at too high a price. I am referring particularly to pork products, which were kept off the market and the rest of the people in Canada paid more for these pork products than they should have. It is true that the farmers got more. But I have no knowledge—you may have—how you are going to get the cost of living down if you insist on setting a price on everything that is produced in this country. You say that the private investor would not invest. Why would he not invest in the Middle East?

Mr. LEVINSON: Because of stability conditions.

Hon. Mr. HAIG: There is no stability question as to the investor getting back his payments. You say the government should do it, but the government is really acting on behalf of the individuals. I do not know what the government takes from you each year in income tax, but I know I pay a little something. To that extent I am part of the government. Ninety-nine per cent of your employees pay income tax.

Hon. Mr. KINLEY: That is a pretty high percentage.

Hon. Mr. HAIG: Are you going to take the money away from the taxpayers and put it in there? As in Iran, the investment would be lost just as was the money the British Government invested in peanut plantations in Africa a few years ago. That money was all lost.

Mr. LEVINSON: A lot of investments were not lost.

Hon. Mr. HAIG: Most of them have been lost.

Mr. LEVINSON: Oh, I would disagree with you.

Hon. Mr. HAIG: That is what bothers me; these investments are all lost.

Mr. LEVINSON: You have made two points on this general question as to the proposal about sterling. In very simple terms, this is what it means. We will be selling more to Britain and buying more from the sterling area. That is it in a nut shell. In other words, we say to the British or western European countries, "You are short of dollars. You cannot buy our products and you want them. We shall send them to you and we will agree that we will increase the amount of our purchases by that much."

Hon. Mr. HAIG: I am not a government supporter, but let me ask you this. The government placed a large order for airplanes for the T.C.A. with Great Britain. That was all right, but that is the only way I think we can help them.

Mr. LEVINSON: Certainly one of the ways we can help Britain—and we have suggested it in our brief—is by increasing our purchases from the United Kingdom. Government purchasing, as you mention, is a major point in our brief. We still feel, however, that it is worth considering this kind of part-payment in sterling for our agricultural surplus products, and so on, and

buying more in the sterling area. The second point you raised was this. I believe you said Canadian or American investors would not invest in the Middle East. I should like to comment on that. You think it is because of political conditions of instability. I agree that that is one factor, but the other factor we tried to point out in the brief is that the people in many of those areas do not want private investment. One can agree or disagree with that opinion, but that is a fact, to my knowledge. We say that in those circumstances, if you are going to help these people, you must do it on the basis of something like the Colombo Plan. It must be done on a large scale through such agencies as the International Development Fund which has recently been set up. Private international capital is not likely to make a very large contribution to the development of many of these areas.

Hon. Mr. HAIG: I should like to ask you one more question. About ten years ago we invested some \$50 million in China. Did it do us any good? That was a government loan and we lost it.

Mr. LEVINSON: I suppose in a dollar and cents way the grants made by the Colombo Plan to India or Southeast Asia can be considered lost. However, in terms of the world political struggle these grants will mean increased purchasing from us in the future. I for one would never agree that this is really a financial loss. In my opinion we must make these grants.

Hon. Mr. HAIG: What gain did this country get from the \$50 million that was invested in China?

Mr. LEVINSON: I do not know.

Hon. Mr. HAIG: And in addition they stole our ships.

Mr. LEVINSON: I suppose so, but I submit to you, senator, not making these grants to Southeast Asia would result in far greater repercussions on the Canadian population than the \$50 million lost in China.

Hon. Mr. HAIG: Well, we lost that money completely.

Mr. LEVINSON: I am putting forth the statement that we must grant these people money. We do not know what will happen to the free world.

Hon. Mr. KINLEY: You say that they do not like private money. I think you will agree that the only people in the world who invest are those who have private money.

Mr. LEVINSON: I would suggest to you that at the moment, the grants being made through the Colombo Plan—through the International Bank for reconstruction and development, are not from private capital.

Hon. Mr. HAIG: Sure they are.

Mr. LEVINSON: Those are the agents doing the job of economic development in those areas.

Hon. Mr. KINLEY: In our country it is done in that way. The money comes from the taxes that the people pay.

Mr. LEVINSON: Well, if you want to look at it from that point of view I suppose you are right, but the actual effect of transferring capital from Canada to Southeast Asia in the Colombo Plan is not being done as in the past, through international investment on a private basis, but it is being done directly from the Canadian government to the government of India.

Hon. Mr. LAMBERT: That is really what is wrong with the plan.

Mr. LEVINSON: Whether you and I disagree or agree on that particular point, I think there is no alternative.

Hon. Mr. LAMBERT: I do not wish to usurp the point, but to follow up what Senator Haig was referring to in connection with the Colombo Plan, supposing for the purposes of argument the government of Canada does

everything you suggest in this brief in connection with that plan. How far do you think that would contribute to the solution of the problem that is supposed to be solved, or at least met, at any rate, by the Colombo Plan?

Mr. LEVINSON: You mean if the Canadian government contributed more, let us say, to the Colombo Plan, how much do you suppose I think that additional contribution would mean to the countries in Asia?

Hon. Mr. LAMBERT: This problem you are dealing with now is a big international problem, and we are one of several signatory nations in relations to the Colombo Plan. What I am getting at is, are we not a pretty small sector of that whole effort? And does not a great deal depend upon the efficiency and the ability of your international organization that you set up to handle the whole thing, as to what we do or do not do?

Mr. LEVINSON: I would suggest that we are one of the major, if not the major, countries in the Colombo Plan which is capable at the moment of assisting. I mean, the contributing countries to the Colombo Plan are primarily U.K. countries.

Hon. Mr. LAMBERT: The United States is in the Colombo Plan, is it not?

Mr. LEVINSON: The United States is not contributing much to the Colombo Plan.

Hon. Mr. LAMBERT: Why?

Mr. LEVINSON: It is using such agents as the Import Export Bank, and they have their own four-point program, et cetera. One of the reasons I suspect they are doing this is because they have greater control over them.

Hon. Mr. HAIG: You suggested India should have got more money out of the government. They have bloc sterling to the extent of millions of pounds. Why do they not release that? They will hold this capital until it gets valuable; and in the meantime they get it for nothing. Every time we give them 25 million under the Colombo Plan, let them give us the sterling—and they are not doing it.

Mr. LEVINSON: One of the reasons is that the bloc sterling is hardly utilizable in the dollar area and they can't get the goods.

Hon. Mr. HAIG: Let them give it up.

Mr. LEVINSON: Well, that is a possibility.

Hon. Mr. HAIG: Your plan does not suggest that.

Mr. LEVINSON: Well, there are a lot of things, senator, we have not suggested; that is the point.

Hon. Mr. HAIG: You suggested one other thing, that a committee be sent up to advise the government. The people elected in Canada are the people that should advise the government, and nobody else; the House of Commons should tell the government what to spend. Confederation says they are the people to do it.

Mr. LEVINSON: Well, I would not disagree that the elected representatives of the people are the ones who should make the budgetary allocations, and the committee we are suggesting is not that kind of committee, in terms of money, but a consultative committee, an advisory committee; and one of the major functions of that committee would be to interpret the effect of NATO action, in one of their sections, such as the labour forum, etc., and I think they are in as good a position if not better than many people to interpret the effects of any provisional move in NATO as it relates to their own people. I think that is a perfectly valid point.

Hon. Mr. HAIG: They should be the people who have the right to elect their representatives to the Commons at the next election.

Mr. MOSHER: One of our reasons for suggesting one of these committees is because we found out how really valuable they have been. They were valuable during the war when we had our selective service advisory committee, composed of people in all walks of life. We found them advisable with respect to the administration of the national employment funds; and the government has found them very valuable assistance to have on the special committee—representatives of the various organizations on the committee.

Hon. Mr. HAIG: Not advising people how to spend money. A Royal Commission just recently spent a large amount of its time telling people we should spend money, but they did not tell us how the money was to be raised. The members of the House of Commons will soon be going back to the people, and the people may have something to say as to how much money they shall spend.

Mr. MOSHER: I don't think they will.

Mr. LEVINSON: I am not an authority on the great monetary functions of the committee, but for example, if as a result of NATO liberalization of trade a particular section or industry was affected, now you can see the big effect on the people of that industry. Let us say those who are represented by the Canadian Congress of Labour. Is it not worth consideration at least to suggest that before these measures which do affect our people are put into effect as it relates to NATO—that we should have somebody in an advisory capacity, some machinery, to say whether they will be affected this way? One further point. If this is not done, I want to suggest, and I submit, senator, that if there is no consultation there is a possibility that one will run into the kind of political reaction to attempt to liberalize trade that would invalidate any possibility of putting it into effect.

Hon. Mr. LAMBERT: We have run into that right away, I am afraid.

Hon. Mr. HAIG: In the United States they have people at Washington advocating that tariffs be put on zinc; and they have people there that say that. In my experience as an elected member for many years, I am a little keener than anybody else to see that the people in my district get a fair deal, and I am a better judge of it than anybody else, and they think so because they sent me there. Don't you think that a man from the city of Toronto or the city of Montreal would be keener on seeing his own people were not unemployed than anybody else could be? In my experience, I think he would.

Mr. LEVINSON: I am not proposing in this kind of suggestion that we abrogate in any sense the functions of parliament.

Hon. Mr. HAIG: But that is the effect on it.

Mr. LEVINSON: Oh, no, I disagree completely. If in a particular area a committee is consulted for its specialized knowledge—a parliamentary committee, one might suggest that if you are correct we are taking away the functions of parliament. I would disagree with that completely. I think there is room—

Hon. Mr. HORNER: Your recommendation on immigration is of no value whatever, because you hold a threat over the government. You specify that no labour shall be displaced, and if it is the government must find work for the men. In other words, you would have them paid for doing nothing if the work was not available. You hold that threat over the government.

Mr. LEVINSON: I see nothing in this brief, senator, that suggests that point. What we do suggest is that as a result of more imports, let us say, liberalization of trade takes place in Canada, then we feel there is a positive obligation on the Canadian government to alleviate those workers; that is the point.

Hon. Mr. HORNER: But you speak of immigration—

Mr. LEVINSON: We say we advocate long term and a high level of immigration as long as it is planned.

Hon. Mr. CAMPBELL: There is one question I would like to have the witness comment on. There is a good deal of theory in this brief. I think it has been well presented in every way, but I was a little disappointed that there was not some suggestion as to how we are going to meet competition from other markets. Now, take the importation of goods from Germany, England, and many other markets, that is beginning to have an effect on the market in England, and in particular the Germans have been reaching out and getting markets, opening their markets again, very successfully. The Japanese have their eyes on the markets of Canada again. And I was wondering if the congress had given any study to that particular question as to how we can keep our manufactured costs at a competitive level with these other countries.

Mr. LEVINSON: Well, perhaps Mr. Mosher would like to comment on that. We certainly have attempted to co-operate through labour management committees to maintain the efficiency of Canadian industries.

Hon. Mr. HORNER: Might I suggest that when you spoke of industrializing those countries, might that not be a dangerous step until we find out upon what foundation their economy is based?

Mr. MOSHER: I do not think the danger is half as great as you say it is. If I were to undertake to tell the honourable gentlemen how I think we are going to meet the competition, I am sure you would not wholly agree with me. I say first of all that we must have greater economy planning and more efficiency in industry; and that does not come about readily by a good proportion of the huge corporations and financial interests who are today operating Canadian industry.

Hon. Mr. LAMBERT: Mr. Chairman, this discussion, preceded by the very excellent brief, has produced a most involved and complicated argument. I have not sat in on a meeting like this since I was at the United Nations in 1947; there I was awakened to this kind of discussion.

I am wondering, at this late hour, whether there is anything to be gained by sitting later today. Unfortunately, we do not have much time left at this session to discuss anything. This brief has raised so many questions that we could argue all day long on it, and I do not know whether we would reach any satisfactory conclusions.

Mr. MOSHER: May I say, Mr. Chairman, and gentlemen, we will be at your service at any future time which you think we could come and clarify some of our suggestions, or be of any help to you or the government. While you may not agree with us, we will be glad to come back and talk to you at any time.

Hon. Mr. KINLEY: Mr. Chairman, before we go may I say we are not approaching this subject in weakness; we are the best traders in the world, and we are on the top as far as world trade is concerned. We are proud of our trade position.

Mr. LEVINSON: That is very true, Senator Kinley, and that is why the brief concentrated in part on the strong helping the weak.

The CHAIRMAN: Honourable senators, that concludes the meetings of the committee for this session.

The Committee adjourned to the call of the Chair.

THURSDAY, May 7, 1953.

REPORT OF THE COMMITTEE

The Standing Committee on Canadian Trade Relations beg leave to report as follows:

1. Pursuant to the order of reference dated February 26th last whereby your Committee was authorized to enquire into and report on the most practical steps to further implementation of Article 2 of the North Atlantic Treaty, your Committee has heard submissions from eleven leading commercial, industrial, and labour organizations.

2. Through the presentations made by these groups your Committee has become increasingly aware of the great interest being shown by various groups within this country, as well as without, in order to eliminate conflict in the international economic policies of member countries in this North Atlantic alliance.

3. Your Committee realized from the beginning of this undertaking that there would be insufficient time during the present sitting of Parliament to hear all those who wished to present views on this matter. There are many additional groups who have expressed a desire to appear before it. For this reason it has not been possible to complete findings and submit a report at this time.

4. Your Committee therefore expresses the hope that at the earliest possible date during the next Session of Parliament your Canadian Trade Relations Committee be authorized to continue its work under the present order of reference. The great interest being shown by both national and international organizations in this important matter emphasizes the necessity of reaching conclusions from which may emerge constructive ideas for closer economic collaboration among signatories of the North Atlantic Treaty.

5. Your Committee also recommends that if the present work of the Canadian Trade Relations Committee is resumed during the next Session of Parliament, it be authorized to retain an economic consultant or other qualified person or persons to assist it in further enquiries and review the submissions and recommendations presented in order to achieve the greatest possible results from the work already accomplished.

All which is respectfully submitted.

A. NEIL MCLEAN,
Chairman.

APPENDIX E

Restrictions, by Continents, on Importation of Spirits from Canada

NORTH AMERICA

Greenland (Denmark).—No restrictions.

Mexico.—No restrictions.

CENTRAL AMERICA

Costa Rica.—No restrictions

Guatemala.—No restrictions.

Honduras (Spanish).—No restrictions.

Honduras (British).—Importations permitted under British West Indies

Liberalization Plan (B.W.I.L.P.). (See page A-2).

Nicaragua.—No restrictions.

Panama.—No restrictions.

Salvador.—No restrictions.

WEST INDIES

Antigua (U.K.).—Importations permitted under B.W.I.L.P.

Bahamas (U.K.).—Importations permitted under B.W.I.L.P. and special import permits granted periodically to take care of tourist trade.

Barbados (U.K.).—Importations permitted under B.W.I.L.P.

Bermuda (U.K.).—No restrictions.

Dominica (U.K.).—Importations permitted under B.W.I.L.P.

Grenada (U.K.).—Importations permitted under B.W.I.L.P.

Jamaica (U.K.).—Importations permitted under B.W.I.L.P. and hotels catering to the tourist trade are granted special permits for small quantities.

Montserrat (U.K.).—Importations permitted under B.W.I.L.P.

St. Kitts (U.K.).—Importations permitted under B.W.I.L.P.

St. Lucia (U.K.).—Importations permitted under B.W.I.L.P.

St. Vincent (U.K.).—Importations permitted under B.W.I.L.P.

Trinidad (U.K.).—Importations permitted under B.W.I.L.P.

Turks Island (U.K.).—No restrictions.

Cuba.—No restrictions.

Netherlands Antilles.—No restrictions.

Dominican Republic.—No restrictions.

Haiti.—No restrictions.

Puerto Rico (U.S.).—No restrictions.

Virgin Islands (U.S.).—No restrictions.

French Antilles.—No restrictions.

British West Indies Liberalization Plan.—Under this Plan Canadian firms who have exported to the B.W.I. Colonies for the years 1946, 1947 and 1948 are permitted to apply to The Department of Trade and Commerce for an allocation of 40 per cent of the average F.O.B. factory value of their own shipments in those years for each colony.

SOUTH AMERICA

Argentina.—Licences for importation of Canadian Whisky have not been granted since June, 1947.

Bolivia.—Only occasional permits for small quantities granted due to exchange restrictions.

Brazil.—No permits granted due to exchange restrictions.

Chile.—Effective November 4, 1952, no permits granted for luxury items, including whisky.

Colombia.—Import permits are severely restricted due to exchange restrictions.

Ecuador.—Import permits are severely restricted controlled by State Liquor Monopoly.

Paraguay.—No permits granted due to exchange restrictions.

Peru.—Permits for small quantities issued at intervals by Government Liquor Monopoly.

Uruguay.—No permits granted due to exchange restrictions.

Venezuela.—No restrictions—This is the only free market in S.A.

British Guiana.—Importations permitted under B.W.I.L.P.

Surinam (Dutch Guiana).—October 9, 1952, Government lifted the prohibition on the import of whiskies.

EUROPE

Austria.—Our Austrian agents are shippers of Austrian wines to the U.S.A. and the Austrian Government allows them some compensation for the importation into Austria of our whiskies from Canada.

Finland.—The Finnish authorities will grant compensation to Canadian distillers placing orders for certain goods, i.e. Finnish liqueurs and ceramic ware, to be sold in Canada or the U.S.A. However there is no market in Canada so we have been unable to sell to Finland for years.

Germany.—The West German Government allows import permits to the agents of Canadian whiskies exhibited at various trade fairs in Germany on the basis of the dollars spent by us for exhibit.

Gibraltar (U.K.).—Import permits are not granted for the domestic trade.

Republic of Ireland.—The authorities issue licences for the importation of small quantities of Canadian Whisky from time to time.

Yugoslavia.—Private trading is not possible.

Malta (U.K.).—Import permits are not granted for the domestic trade.

Spain.—We recently suggested to the Spanish authorities that we would exhibit at the Madrid Spring Fair if they granted us an import permit in compensation. The reply was to the effect that no import permits can be made available to Canada.

Sweden.—After prolonged negotiations, the Swedish Government agreed to grant us compensation for our whiskies against the purchase of wood tops used for corks on a 25 per cent basis which allowed us to make a sale. This procedure is so cumbersome, time consuming and expensive as to make it hardly worthwhile. In fact when we started negotiations we understood that the compensation would be on a 50 per cent basis. This was reduced to 33 1/3 per cent and then to 25 per cent which included freight to Sweden so that our actual basis of compensation worked out at 18 per cent. In other words by buying \$100 worth of corks from Sweden we could get \$18 worth of our whisky into Sweden.

Switzerland.—There are no restrictions on the importation of Canadian Whisky into this market.

Trade with Poland, Czechoslovakia, Hungary, Rumania, Bulgaria and the U.S.S.R. is not possible for obvious reasons.

AFRICA

Belgian Congo.—No Canadian Whisky has been imported into the Belgian Congo due to the fact that remaining stocks from wartime orders (when the territory was full of foreign technicians) are sufficient for the very small demand.

British East Africa (Kenya, Tanganyika, Uganda).—Since the war there have been no import licences for Canadian Whisky into Kenya, Tanganyika and Uganda. Our agents are continually asking for import licences but are advised that no dollars are available.

British West Africa (Nigeria, Gold Coast, Sierra Leone, Gambia).—No permits whatsoever are available for the importation of Canadian Whisky on the grounds that dollars are not available.

Anglo-Egyptian Sudan.—No import licences have been granted for a number of years owing to the lack of dollar earnings.

Egypt.—No Canadian Whisky has been imported for the domestic market for some time (even Scotch Whisky has not been imported since last October), but we have just heard from our agents that there is a possibility that the Egyptian Government will make currency available ex the cotton earnings and our agents are presenting pro forma invoice with a request for import permit.

Ethiopia (including Eritrea).—Importers are allowed to import dollar goods when they can obtain the necessary dollars on the local market. There are no restrictions on the importation of whisky except for the serious shortage of dollars.

Tangier.—Our agents are able to import their requirements of Canadian Whisky.

French Morocco.—Customers are now able to obtain fair supplies of Canadian Whiskies for the domestic trade.

Algeria and Tunisia (French).—Our French agents supply small quantities to these markets.

Liberia.—There are no restrictions on the importation of Canadian Whisky into Liberia. Imports are mostly made by American Companies with branches in Liberia.

Nyasaland (U.K.).—For a year or two after the war dollars were made available but for the last four years the authorities have made no dollars available for the purchase of whisky.

Somaliland, French.—Importers are able to obtain currency for their requirements of Canadian Whisky.

Somaliland, British.—No import licences are granted because there are no dollar earnings.

Rhodesia, Northern and Southern (U.K.).—No import permits for Canadian Whisky have been granted by the authorities in these territories since 1947 on the grounds that dollars are not available.

South Africa (U.K.).—In 1948, the South African Government found it necessary to restrict severely the importation of goods, such as whisky, from all sources, even where payment in sterling was possible. Two years ago they made limited import permits available with the ruling that if the permit

was utilized for hard currency goods it should be cut by 50 per cent, i.e. £100 worth of import permit issued for Scotch Whisky would purchase only the equivalent of £50 worth of Canadian Whisky. This year, the authorities refused to allow the conversion of sterling import licences into dollars, even at the reduced rate. Our agents and the Canadian Government Trade Commissioner in Johannesburg are endeavouring to have the authorities alter the regulation for import permits granted during the second half of the year.

Tripolitania.—Our agents are applying for an import permit for the domestic trade.

Mozambique (Portuguese East Africa).

Angola.—The importation of alcoholic drinks of non-Portuguese origin into these markets is strictly controlled and the only permits issued are small ones for Scotch Whisky and Gin paid for in sterling.

ASIA

Aden (U.K.).—Permits for Canadian Whisky are not granted, on the grounds that dollar currency is not available.

Afghanistan.—No dollars are available.

Arabia.—King Ibn Saud recently imposed an absolute prohibition on alcohol, even for diplomats and foreign employees in the oil fields.

Burma.—Just after the war, we were allowed a small token import of Canadian Whisky. Since Burma became independent it has not been possible to obtain any import licenses owing to dollar shortage.

Ceylon.—After Ceylon was granted Dominion status in 1948, the authorities issued small permits for the importation of Canadian Whisky and made dollar currency available. In January, 1953, the Ceylon authorities ruled that no further licences could be issued for Whisky from Canada. The importation of beer will be permitted, however, and the question of whisky will be reviewed in May, 1953. We have complained to The Department of Trade and Commerce, Ottawa, against this discrimination against Canadian Whisky.

Cyprus (U.K.).—No import permits have been granted since the war for Canadian Whisky owing to lack of dollars.

French Indo-China.—No import permits available.

Goa (Portuguese India).—Dollar currency is not made available for the importation of Whiskies.

India.—No import permits have been granted for Canadian Whisky since the war. Many parts of India have prohibition and Europeans are on a small ration.

Indonesia (formerly Dutch East Indies).—No permits available.

Iran (Persia).—Total prohibition is in force for the inhabitants of Iran.

Iraq (Mesopotamia).—No permits have been made available for over five years on the grounds that dollar currency is not available.

Israel.—This country is desperately short of all currencies. Our agents have just submitted a pro forma invoice with request for an import permit for a moderate sum.

Jordan.—No permits are granted for Canadian Whisky for the domestic trade as dollars are not available. (Jordan absolutely depends on the United Kingdom for any dollar currency.)

Pakistan.—Dollars are not available for importations for the domestic trade.

Singapore and Malaya (U.K.).—Imports of Canadian Whisky are allowed but currency is not made available by Malaya. Payment is made from Hong Kong.

Syria.—In November last year the Ministry of National Economy in Syria issued a decree prohibiting the importation of all alcoholic beverages. Previous to this, permits were granted for Canadian Whiskies.

Lebanon.—No restrictions.

Thailand (Siam).—Canadian Whisky is allowed into Thailand. The agents have to pay with dollars purchased on the free market at a high rate.

Japan.—Only limited permits granted for imports of spirits for civilian consumption.

Hong Kong (U.K.).—No restrictions.

Philippine Republic.—No permits granted for 2 years due to exchange restrictions.

China.—No trading allowed.

Korea.—No commercial trading allowed.

Taiwan or Formosa.—Limited purchases made by government wine monopoly.

AUSTRALASIA

Australia.—No permits granted since 1944.

New Zealand.—No permits granted due to exchange restrictions.

Samoa (U.K.).—No permits granted due to exchange restrictions.

Tahiti (French).—No permits due to exchange restrictions.

Guam.—No restrictions.

Fiji (U.K.).—No permits granted due to exchange restrictions.

NOTE: Military Forces and Members of the Diplomatic Corps on duty in countries other than their own who have dollars available are allowed to import spirits from Canada for their own consumption and are not subject to restrictions in force in any of the above markets.

