

VERNEMENT



CANADA

STATEMENTS AND SPEECHES

INFORMATION DIVISION

DEPARTMENT OF EXTERNAL AFFAIRS

OTTAWA - CANADA

No. 49/33

INTERNATIONAL ECONOMIC RELATIONS AND THE PROSPECTS OF PEACE

An address by Mr. L.B. Pearson, Secretary of State for External Affairs, delivered to the Boston Conference on Distribution, in Boston, Massachusetts, on October 11, 1949

I am greatly honoured by the opportunity which has been given me to address this distinguished and informed audience. I realize, of course, that anyone who comes before you and ventures into the realm of economic theory is dangerously exposing himself. To use the vocabulary of another great sphere of human achievement, which I must confess I have found recently to be even more fascinating than economics - I am in danger of being caught off base. I am not a trained economist, and I may therefore utter heresies. In the Middle Ages heretics were disposed of by being burned at the stake. I think there was even a time in history when the citizens of this countryside had a way of making it hot for people who talked out of turn on subjects that are normally reserved for experts. In these gentler days, however, I am not in danger of such extreme penalties, and perhaps only my ears will burn for my indiscretions. I am comforted, moreover, that I shall be in good company with my burning ears, for I recall that as late as 1946 a great economist of world renown (J.M. Keynes) wrote:

"The chances of the dollar becoming dangerously scarce in the next five or ten years are not very high."

I might add also that in my own country we were, at that very time, so confident about our supply of dollars that we busily engaged ourselves finding ways and means of restoring them to the United States Treasury by repaying quickly for certain defence facilities that your forces constructed in Canada during the war.

The dollar shortage, which the economist I quoted said would not materialize, has now made itself dramatically apparent in the very currency in which he earned his living -- sterling. The difficulty, however, which the United Kingdom is having on account of its trade balance is obviously not merely a problem between that country and the United States. The international ramifications of the situation were immediately apparent on the monetary exchanges of the world the day after the pound was devalued. The sterling area extends to four continents. Some parts of it are highly industrialized and densely populated, some thinly settled but rich in potential wealth. The economic variety of the area is matched by its political complexity. Besides the British Isles and dependent overseas territories of the United Kingdom, it includes Australia, Ceylon, India, New Zealand, Pakistan and South Africa, which are members of the Commonwealth, in addition to Burma, Ireland and Iraq, which are not. Its problems even have their direct effect in my country since Canada, in monetary as in some other matters, often stands midway between the United States and the United Kingdom. The middle is a very satisfactory place to be if those on either side support, rather than squeeze you. Whatever the Canadian position may be, however, there is little doubt that this general relationship between

the dollar and the pound, is at the heart of the present international financial problem of the Western World.

The problem itself is about as easy to state as it is difficult to solve. It is certainly not enough to say that it is merely a shortage of dollars which causes all the trouble. The dollar shortage is, of course, real enough but it is the result, not the cause, of the present difficulties. The difficulties themselves arise out of the present lack of balance between world production and world distribution. This, in turn, is largely due, either directly or indirectly, to the war; or rather to the uneven impact of the destruction and dislocations brought about by the war, which left certain countries - normally great importing countries - much more crippled and shaken than the great North American supplying countries. The old European world was smashed; the new world hardly dented by war. And in the old world the smashing was uneven and the recovery consequently uneven.

The roots of the crisis go much deeper, in fact, than anything in recent history. From about 1870 until after the first world war, genuine international economic equilibrium was achieved by an expanding, delicately balanced and highly complex system of trade and finance involving capital and gold movements and internal adjustments in the participating economies. The system was originally made possible by technical improvements in transport and production, and was based on the classical division of labour. Through its operation, industrialized countries imported raw materials and exported part of their production. The United Kingdom more than any other country followed this economic trend to its logical conclusion by becoming dependent to a very high degree on food and raw materials from abroad.

It is at least half a century since the growth of new industrial areas outside of Western Europe created the first stresses and strains upon this complicated structure of international trade. The first world war gave it a tremendous jolt, and greatly accelerated the processes which were undermining it. The depression, of course, hit it with the force of an earthquake and when the second world war followed, it was not possible to patch up the fissures which by this time had appeared. For the British, in particular, the two wars brought real economic distress because they forced the United Kingdom government to liquidate rapidly and without hesitating over the long-term consequences, the great financial reserves and assets which it held abroad.

It is now clear that the Western World must set about re-designing the structure of its international economic relations, even as it must rebuild its international political life. This re-designing and rebuilding may do some pretty drastic things to the old concept of the separate state with its insistence on unrestricted national sovereignty.

The fact is that we are faced with a tough long-range economic problem which is as political as it is economic; which is in some ways as novel as it is complicated and for which there is no single or simple remedy. A return to the freedom of trade of 1914 is not practicable because the political and economic conditions of that age have disappeared, possibly for good. At the other extreme is the remedy of total control of trade by governments. As I see it there is no salvation to be found in this approach which restricts enterprise and initiative and which inevitably tends to limit the areas of exchange and subsidize high cost production.

Somehow or other the flow of goods multilaterally must be restored and this can only be done by a concerted effort based on friendly understanding and working together in the part of the new world and the old. This may involve a re-examination of economic policy by all the countries concerned in the light of the present situation. It will also mean that any new measures taken over here which will assist European recovery must be met by measures on the other side which will give the necessary assurance that any assistance given will be effective.

Our experiences in the past in this part of the world make it possible for us to discern a few unmistakeable principles which can usefully guide us in the future. When I say "us", I mean the United States and Canada: your people and our people. Although our economic position is by no means comparable to yours, it is nevertheless closer to yours than to that of any other part of the world. I talk freely, therefore, in this company, of our obligations and opportunities, feeling that what I say applies in varying degrees to both our countries. I fully realize, however, that the degree of your responsibility and the measure of your ability to meet it is much greater than ours, and that your policies and actions will be decisive in a way that those of no other democratic country can ever be.

You are, for instance, a creditor nation in respect of all the great trading areas of the world, while Canada is a creditor only in respect of European states. In our economic relations with you, we join the long line of states that buy from you much more -- in 1947 it was two billion to one billion -- than you buy from us. That fact has very real bearing on our relations with you and on our ability to assist other countries. But though we do not have the responsibilities which attach to your position of political and economic leadership, we can nevertheless see things more or less as you see them. It is for this reason that I speak of the principles upon which I think we must approach our economic problems.

The first of these principles is drawn from our common experience in the expansion and development of this continent. It is this. Given the will and encouragement to work and resources to work upon, it is possible for human beings to make enormous progress in a short space of time in increasing the productivity of the land they occupy. I know that it is fashionable to represent the development of the North American continent as the ruthless exploitation of a vast treasure-house of natural resources. This generalization is only part, and I think a small part, of the truth. For example, it is less than a century since the railroad network began to spread itself over the grain-growing areas of the Western United States and Western Canada. Since that time a great wilderness which was quite literally useless has been turned into one of the greatest and certainly one of the most efficient food-growing areas of the world. This was not accomplished merely by exploitation. It was done by co-operative work and by the rapid and skillful development of techniques of all kinds, from bridge-building to seed culture. It was also accomplished by means of tremendous quantities of assistance from outside. The financing, the original technical skill, in some cases the materials, were brought from abroad to an extent that we do not now often remember. The men who first penetrated Western Canada from Hudson's Bay were a group of canny 17th century businessmen who called themselves "gentlemen adventurers". The development of the new world was, literally, a financial adventure on the part of the old.

In the narrow technical sense, it was not always a successful adventure. There are places in the world for example where part of the history of Canadian railroad building is written in large red figures in many investment ledgers. In the broad sense of the term, however, there can be no question that it was an investment which paid dividends to people of Western Europe a thousandfold. The old and the new world have now changed places as creditor and debtor. In terms, however, of the survival and growth of western civilization, with all its values and traditions, there is no mathematical account-book in which the sum of credits and debits can ever be reckoned.

The parts of the world today which are receiving our support are not, of course, vast unpeopled spaces, but they have great resources, tremendous industrial potential, and, in places, highly skilled populations. They do, moreover, offer a major challenge. In a real and urgent way, the question is placed before us whether these areas shall again become part of the great economic commonwealth of the Western World which may indeed become in time a political commonwealth. The question is urgent, because I am sure

that the economic resources of Western Europe, of the new countries of the Indian Ocean, of Africa and the Indies, will not be allowed to lie idle. If we in the West with our economic and social methods cannot make sure that they are used to the full for the benefit of their own people, and of the free democratic world, there are others who advocate economic systems which are strange and abhorrent to us, who will gladly take on the task. In taking it on, they will, of course, be actuated more by revolutionary political, than by economic motives.

It is at this point that international politics and international economics become inextricably related and that I attempt to define another principle of action. We have recently embodied the conception of a North Atlantic community within the framework of the North Atlantic Treaty. In doing so we have been primarily concerned to increase our ability to resist aggression. I am sure, however, that in the long run our hopes for the safety of the North Atlantic world will prove illusory unless we regard the Treaty as being a great deal more than simply a military alliance. The terms of the Treaty, especially Article II, specifically pledge its members to make every effort to broaden the basis of their association, and not restrict it to defence alone. This aspect of the Treaty, which holds out the promise of economic co-operation, has always seemed of particular importance to the Canadian Government and to the people of Canada, because we believe that in the long run our ability to stand fast against the attacks of international communism will rest in the well-being of our people. We also know that we cannot ensure that well-being by national action alone. We believe that the purpose which we have declared in signing the North Atlantic Treaty can only be fully realized if by our joint efforts we solve the economic and social problems which threaten the area that we have undertaken to defend.

I should not, I realize, talk in these broad terms about the economic responsibilities which this continent, and particularly the United States, has inherited, together with the great political influences which it now exerts, unless I am prepared to say in detail what I mean by my general statements. This is neither the time, nor am I the person, to outline in detail an economic programme for the Western World. I am not even sure that it is possible for anyone to do so now in other than general terms, since it is so recently that we have been fully seized of the problem. It is easy, however, to cite good examples of the kind of responsibilities which I think the circumstances demand. The Marshall Plan, in my opinion, was a great and imaginative act of statesmanship. No matter what the ledgers may show when the final accounting of the European Recovery Programme is made, we shall never be able adequately to estimate the benefit which it has done in the Western World. We have only to consider the political programme of the Cominform and the tight and exacting treaties which the Soviet Union has concluded with her Eastern European neighbours to realize what great quality the Marshall Plan possesses, in magnanimity, in enlightenment, and in ability to produce in the results which are desired. The loans and credits which your country and mine extended during the post-war period to friends and allies whom we desired to see recover their economic strength are further examples of a constructive and far-seeing approach to the problem. There are still others. If you could be with me these days at Lake Success where the Fourth Session of the General Assembly is now meeting, you would be proud and you would be excited to observe how the programme which is emerging from President Truman's fourth point is giving the breath of life to the economic work of the world organization. It is due to the initiative of the United States that this technical assistance programme, to which I refer, is now under consideration in the Economic Committee of the General Assembly, and you and your countrymen are in my view, to be heartily congratulated upon it. I know also from our experience in Canada, that your investors are prepared to send their money abroad in great quantities if circumstances are such that they will find reasonable profit and security -- or at least that insecurity will not arise through arbitrary action which is political in origin.

These examples make me confident that the ability, the ingenuity and the resources are available to meet the challenge of our international economic situation. For this purpose many adjustments will be necessary throughout the whole area of the Western World, many new trading habits may have to be formed, and new conditions of investment may have to be accepted by both creditor and debtor alike. I am sure, however, that if we insist on defining the problem in broad terms, and if we keep our eyes fixed upon the objective of a world in which the economic causes of war, and the social and political conditions which breed war, will be reduced to the very lowest possible level, it is within our power to succeed.

One thing is certainly clear that for such success, all -- not merely two or three -- free democratic countries must work together. In that co-operation, if it is to be effective, all of us will at times have to make immediate concessions affecting national interests, for ultimate advantages. If we refuse -- and expect the other fellow to do the conceding -- then the highly encouraging progress of recent years in the direction of a firm and enduring structure of peace, based on the international organization of the democracies, will be stopped. We will retreat to the old system of international anarchy -- "each nation for itself and God for us all". There would be only one beneficiary of that retreat, the forces of reaction, of slavery, of totalitarian despotism; the forces, in short of international subversive communism. To maintain peace and ensure prosperity those forces must be stopped and one of the best ways of doing this is through international economic co-operation on the part of those states who believe in freedom and peace.

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