

# STATEMENTS AND SPEECHES

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## OUR DOLLARS WERE EXPENDABLE

Summary of remarks by Mr. Donald Gordon, Deputy Governor, Bank of Canada, to National Conference of Business Paper Editors, Washington, February 27, 1948.

This address deals mainly with the balance of accounts between the United States and Canada. One should not be deceived into thinking that the solution of the problem in this field is a simple one because our mutual difficulties are, in effect, one more symptom of world-wide disorder.

Much has been said about the unique relationship between the United States and Canada. It is an example in a world of conflicting ideologies, jealousies, and hates which cannot be overstated. It is all the more impressive when it is realized that despite the disproportionate sizes and strengths of the two economies there arises no question of the smaller being the satellite of the larger.

Moreover, the United States has reason to know that in times of emergency Canada is a powerful and competent ally. Still further, Canada is the largest customer of the United States in terms of commodities and services. On the other side, the United States has a larger capital investment in Canada than have all other countries of the world combined.

But satisfactory as all this is, we must constantly remember that our relationships must never be taken for granted. We owe a debt to each other to keep informed about them and to cultivate them.

Recent events in Canada have given special emphasis to this point. The fact that Canada had enormously increased its imports from the United States over the past few years was a matter of general knowledge but did not until comparatively recently excite much comment. The fact that Canada had extended very large postwar credits likewise attracted relatively little attention. Finally, the inevitable effects of the delayed recovery of Western Europe on the Canadian economy were not foreseen in the United States and even yet the action which Canada was forced to take is not understood, and in some quarters is criticized and resented.

This Canadian action came at the very time that announcements were being made to the effect that after nearly a year of discussion the Geneva Conference had reached a preliminary understanding. There can be no question that the timing of the Canadian action was unhappy and yet the hard facts made it inevitable.

At the end of 1945 Canada had foreign exchange reserves totalling about \$1,500 million - that is, in gold and United States dollars. That was regarded as a substantial sum. By December 31, 1946, our reserves were \$1,245 million and by December 31, 1947, they had dropped to just over \$500 millions. At that rate of decline, it was obvious that in a matter of months Canada's exchange resources would have been exhausted and we would have been unable to pay for our essential needs of such things as coal, oil, cotton, steel and so forth.

Our trouble was as simple as its cure is complex. We were paying cash for our imports and three-quarters of these imports were coming from the United States. On the other side, we were sending less than half of our exports to the United States and the other half we were sending to other countries without getting full cash payment, but were instead granting substantial Canadian dollar credits which were being drawn on.

In 1946 Canada had a favourable balance in its current transactions with the world of about \$460 millions. In addition, there was a net inflow of capital of about \$100 millions and about \$40 millions in convertible currency and certain other transactions. If our trade had been on a cash basis we would have increased our exchange reserves by the total of these items, namely, \$600 millions. But instead of that, we gave credits to the United Kingdom and other countries totalling \$750 millions, we gave exports totalling \$110 millions through UNRRA and Mutual Aid, so that instead of increasing our reserves by the \$600 millions surplus, I have mentioned, we suffered an actual reduction of about \$260 millions. In 1947 the picture was that our current transactions with all countries showed a surplus of \$70 millions. We granted credits again to the tune of \$560 millions and gave away \$40 millions in relief appropriations. Consequently, we had a cash deficiency on our current transactions with other countries which caused a net drain of \$530 millions in our foreign exchange reserves, to which must be added a \$74 million capital subscription to the International Monetary Fund, and \$139 millions of redemptions of Canadian debt and other capital payments abroad. This was a total drain of \$743 millions during 1947 and left our exchange reserves, as I earlier mentioned, at a figure somewhat in excess of \$500 millions.

In terms of the kind of figures you are accustomed to think in, these Canadian figures may not sound very impressive but in relation to its resources the risks which Canada has already taken in its European Recovery Programme far exceed that of any country, including the United States. In the light of claims which are being made on the United States on all sides, it must surely be of interest to its taxpayers and citizens that its neighbour, Canada, is playing its full part in world recovery. Indeed one could argue that Canada attempted too much, but in a world suffering so much from the curse of too late and too little, I wonder if anyone is justified in thus criticizing the Canadian action.

Furthermore, we do not suggest that Canadian action was dictated solely by altruism. As one of the largest trading nations of the world, Canadian prosperity in the long run is heavily dependent on its export trade, and our investment in the rehabilitation of our best customers is a policy

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of hard-headed realism. Indeed, we took the same view in regard to our wartime contributions to Britain, namely, that our long-run interests were so vitally engaged in enabling the fight for freedom to be won that any attempt to estimate the value of that service to humanity was out of the question. So it was that well before the United States Congress had approved that greatest of all acts of constructive statesmanship - the policy of Lend-lease - Canada had already been financing British purchases in Canada, and in March, 1942 made an outright gift of a billion dollars to Britain for the purchase of vital war materials and food. In due course, this was followed by the Canadian equivalent of Lend-lease, under which by Mutual Aid Acts a total of \$2,200,000,000 was provided to our fighting Allies. There were also other forms of assistance both during the war and immediately following the war, which added the respectable total of roundly \$1,600,000,000 to the figures just mentioned. (I should also interject that Canada did not accept a single dollar of United States Lend-lease assistance, but financed its entire war effort and its contributions to others out of its own resources.) These figures, which are of startling magnitude for a country of twelve and an half million people, demonstrate that our post-war approach in regard to the recovery programmes for Western Europe is in the same spirit, and that both our desires and our interests coincide in this respect.

If the Canadian figures were matched by the United States post-war credits, these would have totalled some \$32 billions on the basis of relative national incomes. Moreover, in addition to post-war credits Canada has been, and is selling under contract to the United Kingdom at prices well below the inflated levels which have recently prevailed in world markets, particularly in foodstuffs, and this has materially added to the assistance already given.

With the best will in the world, however, it became evident toward the end of 1947 that we simply could not stand the pace. Our assistance to overseas countries had become too large in relation to our surplus of exports over imports, and had resulted in a large and rapid drain on our exchange reserves.

In fact, our situation had become so serious and our action has been so long delayed that it was necessary for us to move on all fronts. Consequently, in November we imposed prohibitions and quota restrictions upon a wide list of consumer goods and also undertook a close supervision of imports of capital goods which cost us United States dollars. Concurrently, the freedom of Canadians to travel in the United States was restricted in that a maximum of only \$150 per annum, per person, is available for pleasure travel in the United States. We were also obliged to reduce the amount of credit which we would make available to other countries. It was not a pleasant programme by any means, and in the few months of its operation it has been found to be fully as difficult as it was expected to be. The Canadian and U.S.A. economies are so interlocked in habit and preference, in business, social and travel intercourse and in the ideology of their people that it is not an easy thing to legislate that our people must not purchase from the United States some of the things they want to buy, and which they consider do no more than maintain a somewhat similar standard of living.

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It should not be assumed that these restrictions were brought about because we were living beyond our means, as a country. On the contrary. As I have stated, in 1946 we had a handsome surplus in our accounts with the rest of the world and in 1947 we were still better than in balance, even though our export prices were below the inflated world level. In 1947 production and employment in Canada reached heights never before achieved in peacetime and a tremendous expansion and improvement of our capital equipment is taking place. This high rate of capital development - it is higher even than your own here in the United States - has involved heavy imports but it will bring its return in due course, in the form of increased Canadian production. Even so, we could have managed this heavy investment programme if our customers had not had to draw on our credits to them at such an accelerated rate, as a result of recent severe setbacks to European recovery.

The position occupied by the United States in the world today makes it impossible for her to ignore that story. Indeed, it is evident that the extent and character of the further aid which the United States may give toward the rehabilitation of countries under a European Recovery Plan is not only the most important question before your people at the present time, but it is probably the most important question confronting the world.

With or without a European Recovery Programme it is obvious that the heavy unbalance between our imports from the United States and our exports simply must be reduced. In 1947 we bought \$2 billion dollars worth of goods from the United States which is almost twice your purchases from us, notwithstanding that there are just about twelve times as many people in the United States as in Canada. Including travel and other services the figures work out to this result, that each Canadian individual, on average, spends about \$220 in the United States, while each American individual, on the average, spends about \$12 in Canada. Even a small increase in that \$12 would make a very great difference to Canada.

It is also good common sense, while scarcities remain in certain fields, to maintain the wartime principle that each of our countries should share with the other those commodities which are in short supply. Continuation of this principle will help us to make the maximum contribution to the recovery of Europe and to a strong and expanding North American economy.

I have also mentioned the evidence provided in the war years that Canadian production was a powerful strategic force. Although we recoil from the notion that it may be called into play again, yet it is only prudent to realize that Canadian industrial potential is more important strategically now than it ever was. This is surely another reason for mutual concern with the health and vigour of the Canadian economy.

Also, business men have learned that public attitudes affect the attainment of their considered objectives. If, American business is convinced of its primary interest in the Canadian market and the Canadian economy, then it follows that some attention might be profitably directed to the education of the American public along these lines. For example,

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it is important that American visitors to Canada realize that their expenditures help to pay for our American imports and are thus related to jobs in the United States. Further, prospective American visitors should be enabled to detect the falsity of rumours that Canadian so-called "austerity" has a bearing on their possible reception in Canada. We were never better able to meet the travellers' needs than we are at present. As a matter of fact, perhaps one of the easiest ways to increase the present \$12 figure of American per capita spending in Canada would be a substantial increase in the present rate of receipts from your tourist traffic.

However, it is also clear that some means will have to be found whereby Canada may have better access to the volume market of the United States. This, in turn, will enable us to keep our purchases from the United States at a maximum and maintain our position as your best customer. Surely it is best that we develop our trade with each other on a basis of frankly recognizing our respective skills and energies and under the stimulus of honestly competitive assessments in the market place, of our respective products. Surely this must be better than a dependence upon restraints and restrictions upon the free will of consumers and producers, with all that they mean in the growth of vested interests in uneconomic enterprises, the continued interference and control by governments and the suspicions and bitternesses which are sure to develop in such an atmosphere.