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## CANADA'S CONTRIBUTION TO WORLD RECOVERY

An address by Hon. D. C. Abbott, Minister of Finance, to the Canadian Lumbermen's Association, Montreal, February 9, 1948.

I have looked forward for some time to addressing this gathering of Canadian lumbermen. In these days of dollar scarcity, inflation and other pressing matters, the Minister of Finance cannot stray too far from Ottawa, but it did seem to me that I should not miss the opportunity of speaking to such a representative group of business men from all parts of the country about some of our national problems.

Canadians, like free men everywhere, are watching closely while the Congress of the United States debates the Marshall Plan, or, as it is more properly called, the European Recovery Plan. Fortunately, we are not one of the countries whose very existence may depend upon the outcome. Canada has never had to depend upon foreign aid, and I hope will never be in that position. Our interest is that of a country which on its own initiative, and at some considerable cost to itself, has already made a substantial contribution to the economic restoration of Europe and of the world in general, but which realizes that the main burden of the task must be assumed by those who are able to bear it and carry it through to a successful conclusion.

As President Truman said when putting his proposals before Congress, the United States "is the only nation with sufficient economic strength to bridge the temporary gap between minimum European needs and war-diminished European resources. We expect that other countries which have it within their power will also give what assistance they can to Europe. Canada, for example, has been lending assistance to Europe fully as great in proportion to its capacity as that which we have given." As this audience is aware, that statement of the President is by no means an exaggeration.

In considering Canada's role as a participant in further efforts to bring about recovery in Europe, it is of some importance that the extent and variety of the assistance we have already given and are continuing to give, should be widely known and appreciated. The record will show that ours has never been an attitude of "leave it to the Americans", or to any one else. As one of the world's largest trading nations we have recognized, in practical fashion, our vital national interest in the economic restoration of our overseas customers. And I hope and believe that we also deserve to be called what an American magazine recently called us, "a nation with a conscience".

The United States policy of Lend Lease is rightly regarded as one of the greatest acts of constructive statesmanship in the history of the world. Lend Lease put the vast productive resources of that country at the disposal of the free world, then battling for its existence, and thereafter ensured that a scarcity of United States dollars would not interfere with the achievement of victory. Yet Canadians may be permitted to recall that, even before the United States Congress had approved Lend Lease, this country was financing British purchases in Canada, and in March 1942 put a billion dollars at the disposal of Britain for the purchase of vital war materials and food. This was followed in due course by the Mutual Aid Acts under which Canada provided goods and services to her fighting Allies to a value of approximately \$2,200,000,000.

This assistance was an integral part of the Canadian war effort and can be justified entirely on that basis. I bring it to your attention at this time because it also marked the beginning of the measures we have taken to assist in post-war reconstruction. One of the major considerations behind the decision to furnish war materials and food without expense to our Allies was the desire to avoid the creation of war debts. We knew from the bitter experience of the previous war what a heavy burden such debts can impose upon the debtors and how they can hamper the recovery of world trade. In the light of recent developments, no one will, I am sure, question the wisdom of that decision.

Canada did not accept United States Lend Lease assistance, even though at times we were critically short of United States dollars. As my predecessor in office, the Right Honourable J. L. Ilsley, explained on one occasion: "We never wished to ask the United States for lend lease assistance - we felt that as a nation in a favored position, free from the ravages of war, we were in duty bound to stand on our own feet, and indeed share with the United States in assisting other less fortunate of our Allies in carrying on the war against the common enemy." This attitude towards Lend Lease is worth particular note because it accords in principle with the attitude that Canada is now taking towards the European Recovery Plan.

While the outright gift of a billion dollars in supplies to Britain and Mutual Aid comprised the chief forms of assistance by Canada to overseas countries during the war, the wartime record would not be complete without mention of several other significant items. The legislation relating to the so-called "billion dollar gift" also included a loan of \$700,000,000 to Britain to cover supplies previously purchased. This loan has never carried interest and about half of it still remains outstanding. In 1943 we repaid to the United Kingdom Government some \$200,000,000 to cover its share of the cost of constructing special munitions plants in Canada early in the war. As part of the overall financial settlement reached between Canada and the United Kingdom in 1946, we agreed to assume the United Kingdom share of the costs of the Commonwealth Air Training Scheme in Canada amounting to \$425,000,000. Prior to Mutual Aid we extended a credit of \$10,000,000 to Russia for the purchase of wheat and flour, and when Mutual Aid came to an end made a temporary advance of \$8,800,000 to the same country for the same purpose. When Greece was faced with starvation we made free shipments of wheat valued at \$19,000,000.

I do not list these items of wartime assistance with the idea in mind that Britain or any other recipient country is indebted to us in any way, or that we did these things purely out of the goodness of our hearts. We did them because they were in our own long run interests. Who can measure in monetary terms, Britain's contribution to the defence of freedom? My purpose in referring to these things which Canada has done is to indicate that during wartime our policy was such as to place as few obstacles as possible in the way of the eventual rehabilitation of a war-torn world.

As the end of the war approached, European countries looked to Canada for help in the relief of distress and in the work of reconstruction. They did not look in vain. The Governments of the United Kingdom, the United States and Canada, realizing that conditions in the countries of Europe were being cleared of the enemy were so desperate that action would have to be taken before the concerted efforts of the United Nations could be directed to that end, formed a Civil Affairs Committee to distribute relief through the medium of the armed forces stationed in the devastated areas. Canada's share of the outlay of this tri-partite effort was approximately \$95,000,000, of which part is recoverable.

Military relief was followed by the formation of the United Nations Relief and Rehabilitation Administration. When this humanitarian agency finally completed its work we had contributed supplies valued at \$154,000,000. Nor did the dissolution of UNRRA mark the end of Canada's aid to Europe.

Post-UNRRA relief totalling approximately \$20,000,000 was provided in 1947 to the International Children's Emergency Fund, to the Canadian Council for Reconstruction through the United Nations Educational, Scientific and Cultural Organization, and in the form of direct aid to Austria, Greece and Italy. In addition, our assessed share in the budget of the International Refugee Organization amounted to \$5,400,000. Adding these items together, our total contribution through Government channels in the form of direct relief to Europe has amounted in round figures to about \$275,000,000.

I cannot complete this review of the contribution made by Canada to the relief of distress in Europe without mentioning the generosity of individual Canadians, both during and since the war. Indeed, in many respects private contributions are more praiseworthy than the assistance rendered through the state, for they reflect even more truly the humanitarian spirit that has motivated the Canadian people during these past few years. Complete figures as to the volume of private aid are not, of course available, but I am told that the value of the supplies shipped overseas from the beginning of the war by agencies which come under the scrutiny of Dominion Government amounted to no less than \$95,000,000. The Post Office has also given me some interesting figures on the volume of overseas parcels, mainly food, that I would like to pass on. In 1945 the weight of parcels sent from Canada to the United Kingdom and other European countries totalled 11,351,000 pounds; in 1946 nearly 25,000,000 pounds; and in 1947 nearly 40,000,000 pounds.

I come now to postwar credits, through which Canada has contributed to reconstruction and recovery on a scale that will bear comparison with any country in the world. First, of course, was the credit of \$1,250,000,000 granted to the United Kingdom in 1946, of which \$978,000,000 had been drawn down by January 31, 1948. This was followed by credits and guarantees to Belgium, China, Czechoslovakia, France, The Netherlands, The Netherlands Indies, Norway and Russia under the Export Credits Insurance Act, totalling about \$607,000,000, of which some \$456,000,000 has been advanced under direct credits at January 31, 1948.

In total, therefore, since the conclusion of hostilities, Canada has extended credits to Europe and China amounting in all to \$1,857,000,000, and has already put at the disposal of the borrowing countries under the credits, goods and services valued at some \$1,434,000,000.

It is difficult to grasp the significance of such large figures and to see them in perspective. Perhaps it will help to give them meaning if I relate them to our current dollar difficulties. As most of you may be aware, we came out of the war with a healthy reserve of United States dollars and gold, amounting to about \$1,500,000,000 at the end of 1945. A year later that reserve had fallen to \$1,245,000,000, and by the middle of November 1947 to approximately \$500,000,000.

Now, if all our transactions in 1946 had been on a cash basis, rather than partly on credit and partly in the form of outright gifts, our exchange reserves, instead of declining by some \$250,000,000, would have increased by \$600,000,000. If all our transactions during the first ten and a half months of 1947 had been on a cash basis, our exchange reserves, instead of falling by \$745,000,000, would have fallen by only \$235,000,000.

In other words, the dire straits of the countries affected by the war, most of them in former years good customers of ours, led us to permit their purchasing a large proportion of their requirements from us on credit at the same time that we financed part, or all, of our U.S. deficit by the using up of previously acquired negotiable assets, our liquid reserves of gold and U.S. dollars.

These are striking facts, but they by no means tell the whole story. Our real contribution to world recovery is to be measured, not in terms of the money we have provided by way of relief and credit, but in terms of goods and services. People eat food, wear clothes -- not dollars. An important part of our real contribution is to be found in the measures of price stabilization followed during and since the war which had the effect of protecting not only our own standards of living at home but the purchasing power of the dollars we put at the disposal of our customers and friends.

Nor should we overlook the various contracts entered into to supply essential foodstuffs and other materials to Britain. These contracts, whether government or private, are business arrangements and stand on their own feet. There is no doubt, however, that by demanding less than could have been demanded and obtained from a hard-pressed customer, by having regard for the ultimate solvency of the customer and by being based on long-run rather than short-run considerations, these contracts have provided tangible assistance at a time when assistance was so badly needed.

Most of these contracts are well known, but I would like to single out for special reference on this occasion, one that is of particular interest to your organization. I refer to the purchase of lumber from the west coast. This contract provides for the shipment of lumber to the United Kingdom for a period now extended to about two years at prices which are above prices on the domestic market, but below prices currently prevailing on the world market. Such a contract enables the government of the United Kingdom to plan its reconstruction program, secure in the knowledge that supplies of this product, so vital to the rebuilding of shattered cities and bombed factories, are assured at reasonable prices during the period of reconstruction. This contract is the successor to previous contracts of a similar nature in which the Canadian government had taken a direct interest and to whose fulfilment it has contributed. But the Canadian government had no part in this last contract, and the credit for its terms must go to the industry itself.

Canada's contribution to world recovery has indeed been large. In relation to population and national income it probably exceeds that of any other country. But our contribution is by no means out of proportion to our national stake in the economic restoration of our overseas customers. Abraham Lincoln once said that the United States could not endure half slave and half free. I suggest that a country like Canada cannot prosper in a world split into a highly prosperous dollar area and a starving, depressed "soft currency" area. Our stake in a large and smoothly flowing volume of international trade is enormous -- greater proportionately than that of any other country except possibly New Zealand. With a population of only about twelve million people, we nevertheless rank third in export trade and in total trade. Our export trade accounts for something between a quarter and a third of our total national income. Incidentally, I may add that your industry is one which makes a very important contribution to that trade. Exports of wood, wood products and paper -- that is to say, including all branches of the forest products industry -- represent the largest single category in the published statistics and amounted to \$886 million during the year 1947 or 32% of our total exports of Canadian produce.

Our interest in a prosperous world, however, arises not solely from the huge size of our external trade but also from the peculiar pattern of that trade. As everyone knows, we do not buy largely from the countries to which we sell most and we do not sell largely to the countries from which we buy most. This is the "so-called" triangular pattern of our external trade to which reference is so often made. Canada therefore does not fit into either the dollar group of countries or the non-dollar group of countries. To make the best use of our resources we are bound to sell more to overseas countries than we buy from them and to buy more from the United States than we sell to that country. It is therefore essential for our national well-being that we should be able to convert the currencies derived from our overseas surplus.

United States dollars. Convertibility will only come, however, when the overseas countries whose economies were seriously impaired as a result of the war have restored their output and their productivity to the point where they can balance their international accounts out of their own exports and other foreign earnings.

The chief purpose of our contribution has therefore been to enable our overseas customers to resume mutually profitable trade with us on a cash basis. We had hoped that before now there would have been a sufficient measure of recovery to enable European countries to export enough goods to ease their dollar shortage. Unfortunately, due to a considerable extent to the unprecedentedly bad winter of 1946-47, the serious crop failure in Europe last summer, and, to put it mildly, the unco-operative attitude of Russia, these hopes have been disappointed. Instead the dollar shortage has grown progressively more acute and has spread to practically the whole world, including Canada. But we need not take a pessimistic view of the outlook for European recovery. Recent unfavorable developments mask a considerable measure of real progress towards high levels of production.

We may take heart also from the enlightened and far-reaching European Recovery Plan which the United States Government has evolved, and which is now before the Congress for consideration. The details of the Plan may be modified and time may elapse before Europe will begin to benefit from its operations. But it is now generally believed that the Plan in some form will be accepted by Congress. It would not be appropriate for me to indicate at this time how Canada will fit into this European Recovery Plan. It does seem to me, however, that the position is something like this. Europe needs goods. Someone must produce them and someone must pay the producers. Canada can supply large quantities of the most essential goods, like wheat and other foodstuffs, metals, lumber and machinery. In the past we have done our full share in helping our European customers to pay for these requirements which are essential to their reconstruction. On the basis of this past record, I am confident that we will be prepared to continue to help within our capacity to do so. However, we have now our own dollar problem and consequently there are very real and immediate limitations upon the financial assistance which we can provide. If we go too far, we will find ourselves unable to pay for the things we must have from the United States to keep our economy running in order to supply our own needs and to produce the things that Europe must have from this country. One thing is clear, Canada will play an important role in the European Recovery Programme as a major source of supply of essential foodstuffs, materials and equipment. Beyond that our assistance in one way or another must inevitably be limited by our capacity.

In our international dealings we have followed a courageous, forward-looking policy. In my judgment that policy will pay dividends. We ourselves are now facing difficulties as a result of the well-nigh universal shortage of dollars, but we have taken vigorous steps to solve these difficulties. Some of our new measures are restrictive and none of us wish to see them in operation a day longer than necessary. But the emphasis in our programme is upon its constructive aspects, upon the long run measures we are taking to increase our exchange reserves by developing here a more vigorous and dynamic economy, and by increasing our exports to the dollar area. I am happy to say that the programme which was put into effect only a little over two months ago is already beginning to be effective. As I explained to the House of Commons the other day, we had expected our reserves to fall from the level of about \$500 million at which they stood at the middle of November to something like \$400 million. Instead, they dropped to a low point of \$461 million on December 17th and have since been rising. On January 29th they amounted to approximately \$514 million. While we know that one swallow does make a summer and while we expect to see fluctuations in these reserves, nevertheless the early financial results of the programme have been distinctly encouraging. Even more encouraging, I believe has been the co-operation received from the business community. My colleague, the Minister of Reconstruction and Supply, and I have already seen many instances of the willingness and capacity of Canadian businesses to adapt themselves to new situations and in particular

their ability to find outlets for their products in the United States and other dollar countries.

With this spirit of co-operation, with this adaptability on the part of Canadian business, we can shorten the period during which the restrictions have to remain in effect. Given time, I am confident that we will be able to build an economy which will make the maximum, efficient use of our resources and be less subject than in the past to the dangers of the triangular pattern of trade to which I have referred.