



STATEMENTS AND SPEECHES

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An address by Mr. Douglas Abbott,
Minister of Finance, to The
Governors' Session of the New England
Council, at Boston, on November 18, 1948.

In the past year on several occasions I have had the pleasure of addressing audiences in the United States. In some cases I prefaced my remarks with a mild reproach to my American friends for not taking a greater interest in their Canadian neighbour. Such a reproach to New Englanders would be unwarranted. I was delighted to learn of the New England Council's resolution, directing the attention of your people to the importance of cultivating better acquaintance and understanding of Canada. To see New Englanders turning North is the surest evidence that developments in Canada are being recognized by those whose reputation for practical and effective leadership is well established.

The interest and participation of New England in the development of Canada is not, of course, a new experience. It has a rich and varied history. In the old colonial days New Englanders inspired by the pioneer spirit crossed into Acadia which is now the Maritime provinces. You may recall what Sam Slick said of the population of that area in 1835: "The old stock comes from New England and the breed is tolerable pure yet, near about one half applesauce and tother half molasses, all except to the easterd where there is a cross of the Scotch". The citizens of both countries were intermingled in the great movement westward to our prairies and British Columbia, where the influence of the descendants of New Englanders is apparent today in every phase of Canadian life. Nor was the movement of peoples a one-way flow. Thousands of Canadians emigrated to New England where they have made a noteworthy contribution.

The cultural ties between us are no less profound. In education, literature and the arts the marked similarity of ideals reveals a great kinship and common heritage. If one were to examine a list of Canadians who have made outstanding contributions to Canadian life, in business, government or education, one would find a significant number who have received some part of their training in your great New England Universities.

In the industrial development of Canada which came later than yours, we have drawn freely on New England skill and enterprise. Your engineering skill and technology produced much of the machinery and equipment for our factories and mills. Your capital and enterprise have played a large part in the financing of our economic expansion.

Today, I would like to talk to you about the future--about the current problems that affect our trade--and, if I may be permitted to do so, to make some suggestions as to how we can meet these problems. In particular, I want to speak about some of the recent economic developments in Canada which have a special significance for the New England region.

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In matters of trade Canada is the foreign country which has by far the greatest importance for the United States and, I dare say, for the New England region as well. The total trade that passes over our border exceeds that between any other two countries in the world. Canada is your best customer--and by the way it is a cash customer. In 1947 you sold Canada \$2 billion of exports, almost 80 per cent of our total imports. This is more than you sell to the whole of South America and considerably more than to all Asia; more than your exports to the United Kingdom, France, Soviet Russia and China combined. During the same year the United States purchased from Canada no less than 1 billion dollars of goods, about 37 per cent of our total exports. This is a significant level of purchases but only half of what you sell to us. Perhaps the most significant feature of our trade relations is that Canada with 12½ million people purchases twice as much from the United States as your 145 million people purchase from us. The average Canadian purchased \$160 of United States goods in 1947; the average American purchased less than \$7 from Canada.

Underlying these cold figures is the simple truth that our economies are mutually interdependent and largely complementary. We could not get along without large-scale imports from you of such things as coal, oil, iron and steel, machinery and textiles. Your New England region has for a long time found an important market in Canada for the products of your highly developed industries. I doubt whether you could get along without large-scale imports from Canada of newsprint, woodpulp, timber, pulp-wood, nickel, asbestos, lead, zinc and a host of other vital raw materials. It is this mutual interdependence which has been and will continue to be the mainstay of our high level of trade.

Perhaps more important than the level of trade in understanding present trade problems in Canada, is the direction of our trade. Canada's exports are distributed all over the world, with a significant proportion, about 50 per cent, traditionally going to the United Kingdom and the Commonwealth. Less than 40 per cent of our exports are sold in the United States. The vast bulk of Canadian exports of manufactured goods have depended on Commonwealth markets. On the side of imports, although we normally purchase large quantities from the United Kingdom and the Commonwealth, about two-thirds has come from the United States. We sell much more to the United Kingdom and the Commonwealth than we buy from them. We buy much more from the United States than we sell to you. The wide disparity in our trade balance with the U. S. A., on the one hand, and with the United Kingdom and the Commonwealth, on the other, is the nub of our trade and exchange problem today.

Before the war free convertibility of sterling permitted an easy solution of the Canadian dollar deficit with your country. It was clear that with the cessation of hostilities trade and currency relationships could not be expected to revert quickly to their pre-war pattern. The widespread devastation in Europe meant that for a long transitional period the old countries would require vast supplies of raw materials, food and equipment. At the same time the capacity of these countries to pay for imports, either out of current production or exchange reserves was greatly reduced. Canada could not, under these circumstances, depend on her surpluses earned in the United Kingdom, the Commonwealth and Europe to pay for her deficits in the U. S. A. To help solve this basic difficulty, the foreign economic policy of Canada has been directed to two related goals:

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- (1) the restoration of a multilateral trading world on a sound and lasting basis; and
- (2) the fullest contribution to the recovery of the United Kingdom and Europe, without which multilateral trade could not possibly be restored.

I will not detain you long with an account of these efforts. In peace as in war we found ourselves marching side by side with our United States friends. If you will permit me, I should like to say a word about the Canadian contribution to recovery of the United Kingdom and Europe, because it is so closely related to what you are doing in the United States. Since the termination of hostilities Canada has been carrying on an E.R.P. programme of her own. Close to two billion dollars of credit were authorized for the United Kingdom and countries of Western Europe and China. On a per capita basis, or in relation to National Income, Canadian contributions to European recovery have not been exceeded by those of any other country. It was certainly in our long-term interest, as it was in yours, to promote recovery in those countries with which we have always carried on a large and profitable trade. Such a programme of assistance could not be undertaken without some special effort. We were able, at the end of the war, to look to our long-term interests in this way, because our then reserves of gold and U. S. dollars were adequate. It was hoped that by a careful use of these large exchange reserves they would suffice to carry us over the transitional period of world reconstruction. Events have shown that the hopes which all of us held were too optimistic. The valiant efforts of the war-ridden economies combined with extensive help from North America did not suffice to produce recovery as quickly as we had hoped.

Canadian exchange reserves declined from about \$1½ billion at the end of 1945 to \$500 million by November, 1947, and to a low of \$461 millions in December. There was obviously a limit to the decline in reserves which could be permitted. We could not go on indefinitely buying for cash on a large scale while our customers overseas were unable to pay us for the goods we were shipping to them. Therefore, on November 17, 1947, the Canadian Government adopted a double-pronged programme to stop the rapid depletion of our reserves and correct the disequilibrium in our balance-of-payments position vis-a-vis the dollar countries. To achieve immediate results, a temporary programme of trade restrictions was put into effect. This action was not pleasant for our people. It was not pleasant for our United States friends. I know that it had adverse effects on trade with the New England region. I know that it hurt your tourist trade. I can assure you that this negative and restrictive side of the programme will be abandoned just as soon as circumstances make that possible.

On the positive side the programme is aimed at solving the dollar problem in a constructive, expansionist manner by increasing production and exports to the dollar countries and thereby achieving a better balance with such countries. These constructive measures have already produced results. As a result we have already eased up on some restrictions. I can assure you that further relaxation will take place to the full extent that improvement in our dollar position makes such action possible.

To some extent, the success of the positive programme depends on what Canadians do. To a large extent, however, it depends on what you in the United States are prepared to do to facilitate purchases from Canada. In this respect you yourselves have a powerful voice in determining when the restrictions can be lifted -- when Canadian tourists can once again enjoy to the full the beauties and hospitality of New England, when our consumers can again purchase freely the products of your New England textile mills and leather factories, when our Canadian women can once again adorn themselves with your fine jewellery and their homes with your flatware and pottery.

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Just one year has passed since Canada adopted the programme to correct our exchange position. I can tell you that the programme has been singularly successful in so far as we ourselves have been able to go. In the first nine months of 1948 we reduced our adverse merchandise trade with the United States from \$720 million to \$267 million. This has been achieved in part by expanding our exports to you from \$759 million to \$1067 million. To a lesser extent we have reduced imports from the United States during this period from \$1468 million to \$1324 million as a result of the emergency restrictions. Thanks to the Marshall programme the United Kingdom and Western Europe have been able to pay Canada in dollars for a substantial portion of our exports to them. Under these circumstances it has been possible to put a stop to the drain on our gold and dollar reserves.

It would be misleading, however, to exaggerate the significance of our improved position. To the extent that the improvement has been the result of increased exports to the United States it is evidence of the initial success of our long-term positive programme. To the extent, however, that it is due to the restriction of imports, a programme which we are pledged to drop as soon as possible, and to the operation of the Marshall programme which is of temporary nature, we cannot look to them as positive or permanent solutions. We must make a great deal more headway in the expansionist part of our programme before we can be confident that we are really out of the woods.

The Marshall Plan is designed to achieve the recovery of Western Europe so that by 1952 the recipient countries can stand on their own feet, -- can balance their trading accounts without further large-scale loans and gifts. We must, however, recognize that some of the changes which have taken place in the United Kingdom and Western Europe are basic and long-term. The loss of their overseas investments, the changes in colonial areas and the political difficulties of Europe make it clear that it will be a long time, to say the least, before the United Kingdom and Western Europe will again be able to afford the excess of imports over exports on the scale which prevailed before the war. It is altogether likely that Canada will not be able to earn sufficient overseas surpluses with which to settle deficits in our accounts with the United States. It seems reasonable to assume, therefore, that the European Recovery Programme cannot in itself be expected to solve the basic Canadian trade and payments problem.

We are proud of the progress made in the last year toward solving our payments problem. This progress is heartening but we must continue to work towards the achievement of a long term solution. We recognize that in the circumstances of the world today we can no longer afford to do business with the United States on the basis of \$2 of imports for every \$1 of exports. We must therefore achieve a much closer balance in our trade with the United States. The only question is how to achieve this balance.

Consistent with the traditional policy of my government, we want to do this by constructive and expansionist methods. We want to produce more and sell more to you, by improving our competitive position, by a closer study of your markets and consumer needs. The progress made in the last year bears witness to the fact that we can do it. But we cannot do it without your help and co-operation. Too often we find that the tariff structure of your country makes it difficult, often impossible, for our goods to flow into the United States market. At times this is due to the nature of your Customs administration rather than to the tariff itself, although generally your tariff is much more protective than ours. These obstacles are particularly evident in regard to our manufactured goods and processed raw materials. We have often heard it said in recent years that the fundamental dilemma of the world "dollar shortage" is a problem of production and supply in the deficit countries. This is, of course, true in regard to some countries. It is

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certainly not true in the case of Canada. There is no weakness in our economy -- nothing wrong with our production, either in volume of output or level of costs. We can supply the goods. We can supply them at a competitive price. We hope you will make it possible for us to sell them. We hope you will be prepared to import on a much larger scale than you are presently importing. Every dollar spent in Canada is like a homing-pigeon. It is sure to return home.

What are the alternatives? If we cannot expand exports to you, we will have to achieve a better balance by curtailing our expenditures for your goods, services and tourist trade. We would not like to be forced to take such restrictive measures. It would hurt us; it would hurt you. It would mean less business for us both. It would upset our friendly and mutually profitable economic relations. We know that our real opportunity lies in the expansion of our production and trade. We want to be able to avail ourselves to the full of every opportunity to spend our holidays in the lovely New England country, we want to continue to purchase the products of your New England mills and factories. We think that your stake in solving this problem in a constructive manner is almost as great as our own. Personally, I am confident that the traditional goodwill and mutual co-operation which contributed so much to our past relations will make it possible to meet this problem in a manner which will enhance the welfare of both our countries.

We have in Canada raw materials and foodstuffs in abundance which are not available in the United States, of which are available in inadequate quantities. Recent discoveries in hitherto undeveloped regions guarantee the continuation of supply on an ever-increasing scale. Raw materials have always been the mainstay of our exports. They will necessarily be an important component of our export trade for many years to come. We do not anticipate any great difficulties in this regard. But processed raw materials and manufactured goods are another matter.

Perhaps one fact about Canada which is not too well known in your country is the degree of industrial expansion which has taken place in the course of the last decade. Our manufacturers are depending heavily on future exports. It is for this reason that we view with some alarm the loss of our traditional markets for manufactured goods. In most cases these goods are complementary to your production. In some respects, of course, these goods are competitive with United States products. But you have nothing to fear from Canadian industrialization. There is a fallacious theory concerning industrialization that crops up now and again. It is sometimes held that as a country becomes more highly industrialized it becomes less dependent on imports. Exactly the opposite is true. Is it not precisely because of our industrial development that we have become your best customer? The character of our imports is convincing evidence of that. If that were not so, how is it that Canada with 12½ million people buys many times more from you than the whole of Asia with almost a billion people? As we become industrialized, and the standard of living of our people improves, demand for your goods will grow tremendously. If this is to materialize, the flow of manufactured goods across our borders must become a two-way flow.

Canada's economic strength will continue to grow. That growth will provide increasing opportunities for the further development of mutually profitable economic relations between Canada and New England. Recent years and months have witnessed the discovery of vast supplies of important raw materials: iron ore in Quebec and Labrador, uranium in the Northwest, oil in Alberta and titanium in Quebec. At a time when the available supplies of these critical raw materials are being taxed to the breaking point under the stress of record levels of peace-time production and military preparedness, these discoveries and the development of methods for their economic extraction are of more than ordinary interest. I mention the iron ore development along the Quebec-Labrador border in particular, not only because we regard it as important

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for the future of the steel industry in North America, but because it undoubtedly has a special significance for the steel-using industries of the New England States.

We Canadians were gratified to learn that your Council has not overlooked the importance of this development for the New England region. In setting up a special committee to keep abreast of this undertaking, you are acting in the best traditions of your forefathers. You were among the first to realize the possibilities of opening the American West. You are among the first to appreciate the significance of opening the Canadian North. New Englanders have retained their capacity for leadership, and are meeting the challenge of the 20th century as fully and effectively as their ancestors took advantage of the opportunities offered in the 18th and 19th centuries.

Before I conclude, may I say again how deeply I appreciate this opportunity of appearing before such a distinguished and representative gathering of New Englanders and outlining some of our Canadian problems, which I believe are your problems too. The close co-operation between your country and mine has served to enhance the prosperity, the welfare and the security of both our countries. In a troubled world our relations are unique. That friendship, understanding and mutual co-operation must be carried forward to new and greater levels. The democratic world expects it of us and depends upon it.
