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CANADA IN TODAY'S TRADING WORLD

An address by Mr. C.D. Howe, Minister of Trade and Commerce, to the Massachusetts Institute of Technology Club of New York, on December 6, 1949.

I am happy to be with Tech graduates this evening, even though I am on the speakers' list. While I have not been closely associated with the affairs of M.I.T., I have followed its progress with great interest. Having entered M.I.T. as a student as long ago as 1903, my interest extends back over 50 years. I am looking forward to the report of President Killian on the condition of the Institute at the close of the first half of this century.

The reputation of M.I.T. in Canada is as high as it is in the United States and many other countries. Canadian engineering students have been going to Tech in considerable numbers, either for graduate or post-graduate work, with the result that Tech men are scattered all over Canada. Our National Research Council keeps in close contact with the Institute and frequently retains members of its staff for special work. Canada is fortunate in having access to the engineering experience that has been developed in the United States over the last fifty years, and has been able to reciprocate by giving this country access to such special skills as have been developed in Canada. This interchange has not been confined to engineering fields, but has been the rule in other professions and in industry and commerce generally. Happily there is no tariff between us on ideas.

The Canadian Government is somewhat unique among governments in that it includes two engineering graduates among its twenty members. It happens that both are graduates of M.I.T. Neither I nor my colleague are at present heading engineering departments, as I am responsible for Canada's external trade, while my colleague heads the Reconstruction Department. However, I hope that between us, we have succeeded in adding something of Tech colour to the work of government.

In speaking to you this evening about developments in international trade, I am giving you a Canadian viewpoint on a situation that is causing concern to all thoughtful people. My remarks will have to do particularly with trade between our two countries, brought about by recent changes in the pattern of world trade generally. The threatened breakdown of world trading relations is being widely discussed at the moment, and I have been particularly impressed with recent statements on the subject by Secretary of State Acheson, Mr. Paul Hoffman and Mr. Donald Gordon, Deputy Governor of the Bank of Canada. My thought is that a wider understanding of the situation may lead to steps that will avoid a breakdown of world trade, such as occurred in the early 1930's, and which had much to do with the depression of that period.

Both Canada and the United States are trading nations. Your country stands first among exporting nations, while Canada stands third, with the United Kingdom in between. Both Canada and the United States require markets abroad for our surplus production, the alternative being a glut of certain commodities and a resulting drop in the level of both

prices and employment. Both our countries also require substantial imports. Canada is less self-contained than the United States, and our exports and imports are normally in close balance, whereas the United States normally has a preponderance of exports.

Trade across our common border is far greater than trade between any other two countries in the world. Our resources are largely complementary and our needs are complementary. Canada supplies you with 80 per cent of your newsprint paper, together with considerable quantities of wood pulp and timber. In metals, we supply practically all your nickel and considerable quantities of aluminum, copper, zinc, lead, and uranium. Our abundance of hydro-electric power enables us to ship you certain manufactured products.

On the other hand, you supply us with cotton, coal, petroleum, citrus fruits and a wide range of manufactured goods and components. Canada buys more from you than you buy from Canada, and this is especially true when both countries are prosperous. In the old days of convertible currencies, this unbalance of trade caused no great difficulty, since we were able to settle our balance with you by earnings from exports to Europe and to other parts of the world. Today, that unbalance is a serious matter indeed, and has led to devaluation of the Canadian currency and to restrictive measures designed to bring into manageable proportions the consequent drain on our U.S. dollar reserves. I may say at once that both devaluation of our currency in terms of U.S. dollars, and trade restrictions, are as disagreeable to us as I am sure they are to you.

During the war years, this unbalance of trade and consequent dollar difficulties was not allowed to interfere with the war effort of either country. The enormous and sudden demands of war confronted us with unexpected shortages, both of raw materials and manufacturing capacity. It then became abundantly clear that a new approach to our national production programmes was imperative. Nowadays, there is a tendency to forget the remarkable degree of co-operation which was achieved by our two countries during the war. It seems to me that those wartime experiences may have some lessons for the present.

The need for a new approach to our mutual trade appeared in the Spring of 1941. At that time, Canadian needs for your steel, machine tools and components for new war production seemed almost limitless, while at the same time overseas demands for Canadian products were growing. No longer could Canada balance trade deficits with the United States by overseas credits, and a serious shortage of U.S. dollars developed. This was a matter of alarm in Canada, since it threatened to interfere seriously with our war effort. Of more fundamental importance was the fact that the war production programmes of our two countries tended to be separate and distinct, to an extent that must result in the inefficient use of scarce resources.

In April, 1941, President Roosevelt and Prime Minister Mackenzie King agreed on a basic policy of economic co-operation between our countries which became known as the Hyde Park Declaration. Briefly, this policy was that each country should specialize in the production of items it could produce best, and that production plans should be co-ordinated. As Minister of Munitions and Supply of that day, I was most happy about this declaration, since it opened an avenue to full-out production of war material.

At about this time, the shortage of aluminum was a major bottleneck. I arranged with the late W.S. Knudsen, then Chairman of the Office of Production Management, for the appointment of a Joint committee of United States and Canadian officials to work out the aluminum problem, as well as problems involving the whole field of strategic minerals. This committee, by getting the best effort out of both countries, was able to step up production to meet all war requirements. Under its direction, production of aluminum and nickel and copper and zinc and lead and

tungsten was expanded in both countries, and used as required to meet the needs of both countries. This committee formed a channel for the exchange of complete and detailed information on our joint raw materials situation.

At the end of 1941, another joint committee was set up to deal with problems of munitions production. This joint War Production Committee, with the aid of a number of sub-committees, kept the munitions programmes of both countries continually under review. Its aim was to take up any excess capacity that appeared, and to arrange for new capacity where production could be undertaken most efficiently, regardless of international boundaries. Among other things, this committee was able to make available to the United States considerable Canadian stocks of anti-aircraft guns, radar equipment, ammunition, bombs and explosives for certain bases which were liable to attack immediately after Pearl Harbour.

In 1942, the Combined Production and Resources Board, made up of representatives of the United States, the United Kingdom and Canada, was formed to further economic collaboration among the three countries. As a member of this Board, I was able to observe at first hand how men of good will can resolve difficult problems by friendly discussion. The main concern of the Board was the allocation of the productive capacity of the three countries in the best possible way, in the light of military and civilian needs.

Apart from these committees, there was a regular but, informal interchange of ideas between our two countries. Consultation was almost continuous on problems of priorities, allocations, production schedules and conservation. It is doubtful whether any two sovereign countries in modern times have ever been more closely associated. The problem then was how best to use our joint resources. The circumstances of today are different, but the basic problem is the same.

As a result of the Hyde Park Agreement and of this close collaboration, Canada was able to balance her payments with the United States through delivery of war materials. It is well to remember that Canada has never been a recipient of direct financial aid from the United States.

The balance of payments crisis that was resolved by the Hyde Park declaration is again with us as a peacetime problem. In the year 1947, Canada purchased in the United States goods to the value of two billion dollars and exported to the United States goods to the value of one billion dollars. Obviously, this could not continue. Import restrictions were imposed by Canada, and a campaign organized to expand our exports to the United States, as a result of which, in the current year, while we are still importing over two billion dollars worth of goods from you, our exports to you have been increased to one billion 500 million dollars. This improvement does not mean that restrictions on our imports from your country can be lifted entirely, although it has permitted some relaxation in them. Were it not for Marshall plan dollar aid, extended to the countries of Europe, some of which returns from Europe to Canada in payment of food and raw materials, the position of Canada would be worse, and our restrictions against your goods would have to be more extensive.

In Canada's over-all trade position, we have whatever advantage there may be in the fact that our total exports and our total imports are well balanced. They are, in effect, underwriting each other. While it must be admitted that such a heavy dependence upon foreign trade as Canada exhibits carries with it a high degree of vulnerability to world conditions, we have fortified our position as strongly as it is possible for us to do by developing our import business on a scale that fully matches in dollar value our export business. In other words, we are commercially putting into the pool of international trade as much as we take out, and we are doing that in a way that is giving as fair a field as we can to open competition. We have kept far away from confining our trade with individual countries within the crib-work of bilateral agreements. On the whole, I

think I can say with full confidence that at every turn Canada has shaped her commercial policy along lines that are well designed to contribute as strongly and as fully as we can to the restoration of international trade.

On a world scale, the universal and chronic dollar shortage and currency disturbances are basically a result of distortions in the way world resources are being used. This is partly a result of the shift of the world's economic centre of gravity to North America, a process which started long before the war. The physical and economic damage of the last war added the finishing touches. Europe emerged from that conflict with weakened financial and productive powers, while North America, and particularly the United States, became a tower of economic strength.

Our two countries joined together to help finance the war in Europe by loans and gifts. In proportion to our national economy, Canada went farther in this direction than the United States. After the war, we joined together again in lending five billion dollars to Britain, of which the United States took three-quarters and Canada one quarter. In addition, we both made loans to other countries of Europe. It was believed that these loans would be sufficient to re-establish these countries, but that has proved not to be the case. Your Marshall Plan has recently concentrated attention on production and exchange problems, as well as on financial aid. The financial assistance of the United States and Canada is today the factor that prevents a complete breakdown of world trade.

The problems of adjusting the United States economy to meet the present world trade situation are demonstrated by the consistently large favourable balances of trade that you have had. A recent report of the European Co-operation Administration points out that between 1914 and 1949, the United States exported goods to the value of about one hundred billion dollars in excess of goods imported. How did the world find this huge amount of United States dollars? The answer is that about two-thirds of this so-called favourable trade balance was paid for by loans and gifts from the taxpayers of the United States. The alternative to loans and gifts at the expense of the taxpayer would of course be to take goods in exchange. The United States Administration apparently thinks, and we in Canada are certainly of the opinion that this alternative would be a most satisfactory arrangement for every one concerned. I realize that this is not as easy as it sounds, but surely it represents the realities of the situation.

The trade problem between the dollar world and the non-dollar world is, in many respects, similar to the wartime problem that existed between Canada and the United States. That problem was solved, and solved successfully, to our mutual advantage. Surely our present problems are not beyond our wit to solve. High tariffs are one of the present obstacles. Let us make a real approach to removing that particular obstacle. The alternative is either a collapse of multilateral trade, or a continuation of large scale lending by North America to proud countries which do not want charity and are able and willing to put an end to loans and gifts by opening up the channels of trade. For leadership in this direction, the world looks to the United States, the country with the strongest economy in the world.

The unbalance of trade today is in effect being settled with Marshall Plan dollars. Faced with the ending of Marshall Plan Aid, every country must concern itself with bringing its trade into balance with the dollar area and particularly with the United States. Again taking Canada as an example, this will mean for Canada the shifting of several hundreds of million dollars worth of imports, from the United States to Britain and European countries. We must increase our imports from Europe, but at the moment we can only do this by reducing our imports from the United States. To the extent that we can increase our sales to you, we can of course balance our position by positive, rather than by those negative measures which are always painful to both sides.

The magnificent co-operation that was achieved between our two countries during the war was made possible by the simplicity of the objective. Everyone realized that nothing must be allowed to interfere with the winning of the war. In the result, the objective was attained without disturbance to the pattern of our industrial system. Looking at the problem solely from the commercial point of view, the special exchanges of goods across our common boundary did not interfere with the welfare of any individual groups in either of our countries.

The problems that we face today are no less serious than those we faced during the war years. Unfortunately, the objectives are not as clear, and the fundamentals not so well understood, in our two countries. Whether we like it or not, the peoples of the world today are divided into three distinct groups -- those who have an abiding faith in what we call democracy, which, in the last analysis, is a recognition of the supremacy of the individual over the state; those who have accepted totalitarianism, which acknowledges the supremacy of the state over the individual; and the third group, those who are trying to decide which of these two systems offers them the best hope for the future. Under these circumstances, there can be no doubt of the importance of the example set by the democracies, and particularly the importance of maintaining prosperity and a high level of employment in their territories.

In the 1930's, when the level of industrial activity was falling, and we were faced with declining employment, solutions took the form of countries trying to live within themselves. We all know what happened. This time the stakes for which we are playing are even greater and failure would mean throwing away all the efforts and sacrifices of the war years. Above all else, the trade which crosses the Canadian-American boundary must be made an example of what can be done between two like-minded sovereign states, and a model for our trade relations with other like-minded countries.

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