



STATEMENTS AND SPEECHES

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No. 52/29 THE UNITED STATES AND CANADA: SOME PROBLEMS
AND ACHIEVEMENTS

An address by the Canadian Ambassador to the United States, Mr. Hume Wrong, to the Colgate University Conference on Foreign Policy dealing with the theme "Creating Situations of Strength", July 26, 1952.

The general and timely theme of this conference is "Creating Situations of Strength". This evening, at its opening session, I shall say a little about some of the achievements of the United States and Canada in contributing to this end and about some of the problems with which we are still faced.

The achievements are a matter of record, and I shall not weary you with details. It is relevant, however, to begin by drawing attention to the remarkable change since 1939, and particularly during the last five or six years, in the outlook of Americans and Canadians towards the world at large.

There must be very few people, at any rate in the Western world, who can look back with pride on the international policies of their countries in the inter-war years from 1918 to 1939. We now see how misleading were the illusions which then moulded popular opinion and therefore the actions of democratic governments. There was the illusion that written covenants unbacked by any arrangements for enforcement, of which the Kellogg Treaty of 1928 is the supreme example, would prevent war. There was the illusion, long pursued, that the cause of peace would be greatly furthered by undertakings to limit armaments without effective procedures for inspection and control. There was the illusion that the intrigues of arms manufacturers and international bankers were an important cause of war. There was the illusion that concessions on issues which were not vital - except in terms of moral principle - would buy off the aggressors - the illusion of appeasement. There was the illusion, especially strongly held in North America, that national security could be preserved by remaining aloof from the turmoils shaking the rest of the world - the illusion of isolation. This illusion was accepted more widely in the United States than in Canada; but the winds of opinion know no frontiers and it deeply influenced the attitude of many Canadians.

It would be too much to say that all these illusions have wholly disappeared from our continent; but, thanks mainly first to Hitler and his partners and later to Stalin and his associates, they no longer are influential in determining the national outlook and national policies of either the United States or of Canada. It has needed the spur of danger, the danger of defeat in the last war and the present danger of another and more terrible war, to awaken many people to realities. Recently, on his eightieth birthday, Bertrand Russell wrote caustically:

"Man has survived hitherto because his ignorance and incompetence have made his folly ineffective. Now that science has shown us how to make folly effective, we must abandon folly or perish".

But how new is this change of outlook in North America! Not eleven years have passed since the attack on Pearl Harbour demonstrated for the first time that the defence perimeter of North America was no longer safe from disastrous penetration. Only seven years have gone by since the Charter of the United Nations brought together for the first time the United States with most of the countries of the world in an international organization designed for the solution of international differences by peaceful means or, as a last resort, by collective sanctions. Only three years have passed since for the first time the United States and Canada entered into an alliance of twelve free countries in the North Atlantic area, countries which had become vividly aware that the United Nations, however useful its works, could not provide for their security. Just two years have passed since for the first time a flagrant armed challenge to world security, in the far distant country of Korea, was met by collective military action by the United Nations under the leadership of the United States, whose forces have been joined by combat forces contributed by the United Kingdom, Canada, Turkey and twelve other countries. Only eighteen months have gone by since for the first time an integrated international force, built from the armies, navies and air forces of the North Atlantic countries, was set up to act as a deterrent to war, and was placed under the command of a great American general.

These are great achievements -- in the perspective of history, revolutionary achievements. A common element in them all is the recognition that security can only be found through collective action, a doctrine much talked about for many years but not hitherto acted upon effectively except in the heat of war.

Power politics is a phrase which often invites condemnation, but in truth, as someone has said, power politics are the politics of not being overpowered. What the free world is now striving to do is to establish a safe balance of power with its potential enemies. Even if there were no military secrets in the world, even if the size, the weapons and the capabilities of the forces of all countries were known in detail, it would be extremely difficult to secure agreement among the experts on whether at any particular time such a balance had been achieved.

The achievement and maintenance of a safe balance of power involve a prolonged and painful effort. There have been, and there will be, mistakes and miscalculations and recriminations between allies. Success can only be attained under the leadership of the United States. It is, of course, by no means wholly a North American responsibility, but the North American part is essential to success. The Prime Minister of Canada, Mr. St. Laurent, has put the aim, and the special responsibility of the United States and Canada for achieving it, as follows:

"We in the free world have to create now, and then to maintain, military strength too substantial for our opponents to dare challenge it with any prospect of final victory...We in North America are so much more fortunate in a material sense than other nations that we must expect to contribute more proportionately from our abundance than can be expected from those of our partners who are still recovering from the dislocation and destruction of the last war..."

We can only begin to feel sure that war will be avoided when the like-minded nations have become so strong that their power would only be challenged by madmen. Then perhaps the "peaceful co-existence" to which Stalin often refers may become a reality; issues now insoluble may become negotiable; the Iron Curtain may be slowly raised; the breath of freedom may reach the satellites behind it and the United Nations may begin fully to serve the purposes for which it was designed.

For some years, and especially since the outbreak of fighting in Korea, events have compelled the free countries to concentrate efforts on the building up of military power. While much remains to be done, the progress made has been great, and collective means of further progress have been established, notably in the North Atlantic Treaty Organization but also in many other security treaties and agreements in effect or pending, such as the European Defence Community, the Pacific agreements of the United States with Australia and New Zealand, with Japan, and with the Philippines, the Rio Pact, and the intimate and far-reaching arrangements for continental defence between the United States and Canada. New methods have been developed and new obligations assumed.

Military power, of course, is only a part of the mustering of the collective power of the free countries that is required. Economic strength is the foundation of military power, of political security, and of social progress. This is, I fear, a blatant platitude, but it bears repetition perhaps only because of the very prevalent habit of reckoning power in terms of divisions, air groups and navies. The free world has been busy developing new means of increasing its collective armed strength. How effective are the means that have been devised for building up its collective economic strength?

There has certainly been no lack of international agencies charged with various responsibilities for promoting economic collaboration. There are the International Monetary Fund and the International Bank for Reconstruction and Development; the many agencies of the United Nations, such as the Economic and Social Council, the Economic Commissions for Europe, Asia and Latin America, and the Technical Assistance Programme; the Food and Agriculture Organization; the Organization for European Economic Co-operation, with which the United States and Canada are associated, and the European Payments Union. There is the pledge in the North Atlantic Treaty that the parties "will seek to eliminate conflict in their international economic policies and will encourage international economic collaboration between any or all of them". Not least important, there is the General Agreement on Tariffs and Trade, intended to be the precursor of an International Trade Organization, which has unfortunately fallen by the wayside through failure to secure ratification of its charter.

This is a dizzying array of international agencies, some almost universal in membership, and some of limited but wide membership. Two of them in particular are responsible for seeking to remove continuing obstinate restrictions on international trade by bringing about the convertibility of currencies, the reduction of tariffs, the simplification of customs administration, and the elimination of discrimination. These are the International Monetary Fund in the financial field, and the General Agreement on Tariffs and Trade in the field of commercial policy. In one way or another, however, the work of all the agencies that I have named and others as well touches on these same problems.

While the free nations are still considerably short of having reached a safe balance of military power, there is no doubt that their economic resources are immensely greater than those of Communist-dominated countries -- far greater in industrial capacity, in food production and in production of raw materials. The free world has already an immense balance of economic power in its favour. But that is not enough. Recently, in a speech dealing with the present state of international trade, the Governor of the Bank of Canada, Mr. Graham Towers, who weighs his words with care, said:

"In all seriousness I do suggest that the present state of affairs constitutes a chink, and indeed more than a chink, in the armour of the free nations and that it represents a weakness in the economic foundation underlying their defence efforts - a weakness which, if followed to develop, could become very great indeed".

If this be true, and I believe it is, there is a good deal more that must be done if the free nations are to create the situation of strength -- collective economic strength -- which any enumeration of their resources in numbers, skills, productive capacity and so on appears to make easily possible.

If it were within my capacity to explain why these unwanted blockages to trade still persist -- and it is not -- it would take far too long. Let us leave it that they are due to a variety of causes -- to the inflation in some countries which are living beyond their resources; to the added burdens of rearmament; to the destruction or constriction of old east-west channels of trade; to the great dependence of other countries on supplies from North America and the consequent shortage of American dollars; to the continued pressure on exchange reserves because other free nations have a tendency to buy more goods and services from North America than North America buys from them; to the rapid growth of population throughout most of the world and particularly in many under-developed countries. As the causes are manifold, so, if the consequences are to be alleviated, are many different sorts of action required in many countries.

Some at least of the consequences are clear. A general consequence is that resources are wasted when restrictions divert imports so that they come not from the most economic supplier but from a less efficient producer whose currency happens to be more readily available or from high-cost domestic producers with whom no foreign exchange problem arises. Every such diversion for balance of payments reasons helps to increase inflationary pressures. May I quote again the Governor of the Bank of Canada, not on the cure for these ills, because there is no single cure, but on the attitude of mind in which we should approach the problem:

"If I am right in these anxious thoughts, then we must hope that people will not be merely "against" the paraphernalia of import restrictions, special currency arrangements and so forth in the way that everyone is 'against' sin. The world did not get into the present position because of deliberate choice, but because at each moment of time the immediate situation seemed to call for action along certain lines, and the longer-run future consequences seemed remote and unforeseeable. The future -- or part of it -- is at hand; and the longer-run consequences of past emergency measures are clearly perceptible in many fields. If countries are to get out of these entanglements, they must first of all base their policies on a clear recognition of the direction

in which they wish to move, and then make sure that the measures adopted produce incentives which lead in this direction and not -- as has so often been the case since the end of the war -- in the opposite direction. If international balance at a high level of transactions, without import restrictions, is to be attained and the misdirection of economic resources avoided, we shall have to make an ally and not an enemy of the system of prices and incentives."

Are these admonitions of Mr. Towers in any way addressed to the United States and Canada, both of which have convertible currencies and are free from import restrictions imposed for exchange reasons? I think that they are, although perhaps not so directly as to people in a number of other countries. In any event, I am concerned this evening with the part of North America in creating conditions of strength, not with the problems of the sterling area, Western Europe and elsewhere.

It may seem ungenerous to argue that our countries have not done enough to build up the economic strength of the free world. There has been a vast outpouring of economic aid from North America since the end of the war, in loans, in grants and in other ways. Huge volumes of needed supplies have been financed by our treasuries for the use of nations stricken by the war or in distress for other reasons. The Canadian share in these efforts has been roughly proportionate to that of the United States, considering that the national incomes of the two countries stand in the ratio of about one to fifteen. These efforts certainly have not been in vain. The volume of industrial production in Western Europe, and indeed throughout most of the free world, has risen far above its pre-war level, so that industrial output is now probably half as much again as it was in 1938.

Yet one of the central purposes of the economic aid granted to other countries since the end of the war has been to promote multilateral trade and to remove from its channels blockages of the sort which still persist. It is the hard truth that the longer these blockages continue, the harder they become to remove; they acquire what someone has called the inertia of an established institution. Behind them, uneconomic producers take root and acquire influence; the powers of survival of sheltered infant industries are well known. The restoration and expansion of the industrial productivity of Western Europe, to which the Marshall Plan contributed so greatly and successfully, has, indeed, in some cases itself encouraged the maintenance of import restrictions or other protectionist tendencies.

To many people abroad these consequences seem to have stemmed from a single cause, which they may label briefly the dollar problem, or sometimes the American balance-of-payments problem. How, they ask, can we make our currencies convertible, lift our discriminatory import restrictions and reduce some of our tariffs when the result will be a greatly increased inflow of goods from North America for which we cannot pay in dollars? "By and large", they may say, "we have managed to keep our heads above water only because we have been receiving gifts and loans from the United States and Canada to help us buy what we must have and can only get in the dollar area. Give us a chance to earn more dollars. Once our sales of goods and services to North America begin to balance our purchases, then we can begin to set about an orderly removal of all these abnormal obstacles to trade".

It is clear that this is far too simple an explanation. Though far from being the whole truth, it has real elements of truth which we should recognize and examine. Hitherto, in considering the creation of greater economic strength in the free world, I have made no distinction between the position of Canada and that of the United States. It is now necessary for me to do so.

Only last December were the residual restrictions on the convertibility of the Canadian dollar removed, with the surprising result that it now stands at a premium over the U.S. dollar. We have had in Canada, since the end of the war, a U.S. dollar deficiency of the same sort that still afflicts nearly all other countries. Canadian purchases of goods and services tended to exceed, and in some years very substantially exceeded, the proceeds of Canadian exports. By good luck, not unassisted by good management and by a substantial inflow of capital from this country, Canadian exchange reserves, which were dangerously depleted four or five years ago, have now risen to satisfactory levels. International trade, on which the Canadian economy is far more dependent than that of the United States, has increased substantially. Restrictions on imports, which had to be imposed in 1947 because of the heavy drain on reserves, disappeared some time ago. There have been many reductions in Canadian tariff rates. All this means that the Canadian current balance of payments differs greatly in character from that of the United States. In the single month of May of this year the exports of the United States exceeded the imports by no fewer than \$625 millions.

Of course the Canadian performance in seeking to foster the restoration of multilateral trade has not been perfect. If, however, we waited to find a representative of a country which was without sin to cast the first stone, we should wait forever. The consistently declared aim of the international economic policies of both countries has been the achievement of multilateral trade at a high level. Performance, however, has lagged behind policy, and it has done so rather more in the United States than it has in Canada for reasons which I need not go into. Indeed, it is not necessary to look to a friendly critic from abroad to make this point. On July 13th in a letter addressed to the members of the Public Advisory Board for Mutual Security, President Truman wrote as follows:

"We are working night and day to help build up the military and economic strength of friends and allies throughout the free world. We are spending very substantial sums of money to do this, to the end that our friends can grow strong enough to carry on without special aid from us. This is why we have urged upon them programs of increased production, trade expansion and tariff reduction, so that through world trade they can expand their dollar earnings and progressively reduce their dependence on our aid.

"Yet, at the same time, we find growing up in this country an increasing body of restrictive laws attempting to further the interests of particular American producers by cutting down the imports of various foreign goods which can offer competition in American markets. The so-called "cheese" amendment to the Defense Production Act -- enacted despite a number of existing safeguards -- is a striking example of this trend. On the one hand we are insisting that our friends expand their own world trade; on the other hand we seem to be raising new barriers against imports

from abroad. This poses a very real dilemma for our whole foreign policy."

Mr. Truman went on to request the Board to undertake a thorough and independent examination of all aspects of the foreign trade policy of the United States.

Mr. Truman cited the so-called "cheese amendment" as an instance in which performance has departed from policy. This restriction, enacted by Congress on imports of cheese and other dairy products, is admittedly in contravention of trade agreements and a violation of the general agreement on tariffs and trade. Numerous applications for higher duties are now before the Tariff Commission, many of which, if granted, would require resort to the escape clauses in trade agreements. It is also not widely realized that the basic law which governs the administration of customs is still the Tariff Act of 1930-- the famous Hawley-Smoot Act; an important measure to amend it so as to bring customs procedures into conformity with simpler standards, agreed between most of the free countries and enacted by many of them, has been before the Congress for several years without final action.

None of these matters is in itself a very big thing. Inside the United States these protectionist breezes may not seem important. In other countries, however, and not least in Canada, they are felt as a chill wind. Producers abroad ask whether it is worth their while to expend money and effort in finding new markets in the United States when success might be met with the imposition of a new tariff or quota restriction. Thus such small new obstacles to trade as the "cheese amendment" look a great deal bigger when viewed from outside.

There are some factors at work which, in the long term, should help to bring about a more even balance between the exports and the imports of the United States. I am sure that other participants in this conference will refer to the recent and admirable report, "Resources for Freedom", presented last month by the President's Materials Policy Commission. As many of you know, this seeks to estimate the needs of the United States for raw materials up to the year 1975. It shows the extent of the drain on the domestic supplies of many essential materials and the growing dependence on imports. It forecasts the enormous increases in consumption which can now be expected. It recommends urgently that new sources of supply must be developed at home and abroad. It points out that at present the United States alone consumes about half the materials of the free world and that a lot must be done to keep satisfied the enormous digestive power of American industry. It urges a great increase in the investment of American capital abroad in the development of natural resources. These recommendations will not be carried out without effort.

The Western world must aim not only at creating situations of strength, but at maintaining them indefinitely. To do so, its economic power must be made more secure. It must be supported by the development of new sources of the materials needed to keep up its productivity, to maintain its social structure, and to equip its armed forces. Its resources are great, but not so great that any unnecessary drain on them can be afforded, such as that which arises from abnormal import restrictions and currency arrangements. Somehow or other means must be found to mend this "chink in the armour of the free nations".