

# STATEMENTS AND SPEECHES

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## INTERNATIONAL MOBILIZATION TO MEET ECONOMIC PROBLEMS

An address by Hon. D. C. Abbott,  
Minister of Finance, to the Canadian  
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I decided I would speak to you today about certain important international economic problems now facing the nations of the world, and in particular about three new international institutions designed to assist in meeting those problems.

I believe the subject is timely because two of these institutions -- the International Monetary Fund and the International Bank for Reconstruction and Development -- have recently commenced active operations, and the third -- the International Trade Organization -- is now being fashioned at Geneva. All three institutions are needed to develop sound international trade in the years ahead. I need not add that a high and expanding volume of world trade is an important support of continuing prosperity and a not inconsiderable factor in the maintenance of a stable peace.

Through cooperation and combined effort, the United Nations were successful in winning the war. We have before us now the opportunity of cooperating to rebuild a world economic system. But there are great difficulties and risks involved. There is a real danger that wartime cooperation will disintegrate; that short-sighted nationalistic policies will be adopted to meet exchange and currency difficulties; that in the absence of agreement international trade will be hamstrung by such things as restrictive tariffs and quotas; and that international trade will break down under the cumulative strain of war and of postwar pressures.

Canada, in common with the rest of the world, would lose heavily by even a partial breakdown of international trade. Economic isolation for Canada as for all countries in the modern world is as impractical a policy as political isolation. Export trade is the basis of our employment and prosperity. Something like one-third of our people are directly dependent upon it, while the rest of us depend upon it indirectly to a considerable degree. Without good export markets and healthy export industries, Canada cannot be prosperous. When Canada is prosperous, she is always a heavy importer, particularly from the United States. Such imports assist the expansion of our industries, and contribute to our standard of living.

It is good business for Canada to do all she can to assist the restoration and maintenance of sound multilateral international trade on a permanent basis. We, in Canada, have a real stake in the success of the three institutions which I propose to discuss. It is only using common sense on our part and exercising self-interest to support them. I believe that thinking people throughout the world are coming to recognize that enlightened self-interest requires that traditional policies may have to be modified where necessary in order to restore multilateral trade on a sound basis.

Exchange problems arose before the War, and have been vastly increased by wartime debt accumulations, by the destruction of productive capacity, and by the disorganization of established trade channels.

Even before the war, many of our customers in Europe had not been able to buy from us on a satisfactory scale due in considerable part to the shortcomings of foreign exchange and financial arrangements. Exchange rates in the 1930's were unstable and this made international trade more difficult. Many of our competitors sought by special devices in the field of foreign exchange to gain an unfair advantage over us. Countries competed against one another in depreciating their exchange rates in an effort to gain advantages in exporting. Import quotas, quantitative controls, clearing arrangements and other restrictive practices were the order of the day and generally did more to throttle trade than high tariffs.

Canada and other Allied Nations were determined that international financial arrangements after the war should be more sensible and workable and that they should encourage economic expansion rather than economic contraction. We feel that this should be done by means of the cooperative international action that had been so successful in the winning of the war itself. As a consequence, officials of Britain, United States, Canada and several other countries had a number of informal discussions during the war years which finally led up to the calling of a conference at Bretton Woods in the summer of 1944 attended by representatives of forty-four of the United Nations. This conference drew up the Articles of Agreement of the International Monetary Fund and the International Bank for Reconstruction and Development.

The International Monetary Fund is an association to deal with foreign exchange questions. Its purpose is to promote currency stability and orderly exchange arrangements among nations. To accomplish this purpose it lays down certain standards of behaviour which the members agree to observe and which help the members over rough spots in their international transactions by making foreign exchange available to them in specified amounts on an assured basis. As for the International Bank, its main objective is to make loans to aid in the reconstruction of war-devastated countries and the development of economically backward areas.

As I have indicated, the Fund is concerned in large part with establishing a code of behaviour in the field of international financial relations. It represents an attempt to avoid currency evils, such as competitive exchange depreciations, blocked accounts, clearing agreements and so on. We in Canada fortunately have had very little contact with most of these devices, except that our exporters have encountered them in selling in foreign markets. Because these practices restrict and divert trade, they will, if they become prevalent again, interfere with our exports and imports, and constitute a serious threat to our efforts to maintain high production and employment.

I do not propose to spend a great deal of time in outlining the specific provisions of the Fund Agreement. I will recall merely that each country agrees with the Fund on the initial par value of its currency and agrees to make no change in it except after consultation with the Fund, and certain changes only with its consent. This provision is designed to assure that there will be no changes in exchange rates resulting from temporary conditions which do not reflect a basic economic need for such change.

The second main obligation which members of the Fund assume is they agree that they will not seek, through currency methods, to bring about a bilateral balancing of accounts with each of their trade partners but will pay for current transactions in currency that may be exchanged for other currencies needed for trade. In this way all countries belonging to the Fund will be able to use the proceeds of their exports to each member of the Fund to pay for their imports from any other member.

This obligation, known technically as the "convertibility of currencies" or even more technically as the "multilateral convertibility of currencies",

is of special significance to Canada, for as you are well aware, our trade is not neatly balanced with each of our trade partners. In fact we import much more from the United States than we export there, while we export much more to the United Kingdom and Europe than we import from there.

The obligations I have mentioned regarding exchange stability are important, and to assist member countries in carrying them out, the Fund undertakes to make financial resources available to members to meet deficits in their current international transactions.

Each country on joining the Fund subscribes an agreed assigned quota—the United States subscription is \$2,750 million, the British \$1,300 million, Canada's (which is the sixth largest) is \$300 million. Of these subscriptions, twenty-five per cent is paid in gold, provided however that no country need pay more in gold than ten per cent of its total gold and United States dollar reserves. The rest of each country's quota is paid in its own currency. These subscriptions provide a pool of foreign exchange. A member is entitled to buy foreign exchange from the Fund, to meet current payments abroad, roughly up to an amount equal to its quota plus its gold subscription, at the rate of twenty-five per cent of its quota per year. The Fund therefore constitutes supplementary exchange reserves, which members can draw on in case of need.

The Fund opened its doors for exchange business on March 1st. Before doing so it reached agreement with practically all its members on their initial par values, and these par values were announced by the Fund a couple of months ago. In the case of Canada the initial par value is parity with the American dollar. The other par values agreed upon were those already in effect.

It will be clear from what I have said that the Fund is primarily intended to operate in, and deal with the problems of, what, for want of a better word, we may call normal times. It will be of help but it is not intended to provide the large sums of foreign exchange needed by countries which were devastated by the war or whose trade was so depressed or distorted by the war that they need large sums to bridge and gap until they are back on their economic feet.

It was still necessary therefore to make special provision for the abnormal reconstruction requirements of the transition period. This need has been met in part during the past year by direct Government to Government loans made by such countries as the United States, Britain, Canada and Sweden, but such loans have now largely ceased. When the Fund was established, it was intended to provide for meeting most of these abnormal reconstruction requirements by creating as a sister institution to the Fund, the International Bank for Reconstruction and Development.

The International Bank is easier to understand than the Fund. It is essentially an organization to make loans to member countries to provide them with foreign exchange for their reconstruction programs or for projects of economic development. It can also help member countries to borrow for these purposes from private lenders by guaranteeing the loan.

The Bank will get its money to make loans from two sources. The first and smaller source will be the capital subscribed and paid in by all the member countries. The second and main source of money to the Bank will be funds borrowed by the Bank itself directly from private investors by the sale of the Bank's bonds or debentures.

To give the Bank the necessary credit standing to enable it to borrow in this way, each member government agrees to pay up, if and as required, four times the amount of capital initially paid up, if that should be needed to enable the Bank to meet its own obligations in case there should be defaults on the loans it makes.

In our case for example, Canada subscribed for capital shares in the Bank worth in all \$325 million. We pay in at the beginning only twenty per cent of this in cash -- the first two per cent in gold or its equivalent, which is \$2 million U.S. dollars that we paid last August -- and the remaining eighteen per cent in Canadian dollars in the Bank of Canada, most of which is already paid up, and the total of 58½ million dollars will all be paid up by the end of this month. The remaining 260 million dollars of Canada's capital subscription will only be paid when and if it is required to meet the obligations of the Bank to investors in its securities or those which it has guaranteed. If all goes well and there are no defaults on the Bank's loans -- or only relatively small ones -- it will not be necessary to pay up any of this remaining capital. If for one reason or another there are numerous or prolonged defaults on a substantial scale, then member countries may need to pay up something more to ensure that the Bank itself does not default on its obligations. In this way most of the Bank's capital is used as a guarantee fund to bear the risks of international loans.

The taxpayers of member countries -- including Canada -- bear the risks of the loans made by the Bank, on a fair basis of division, and in return they reap the substantial benefits of the improvements in trade, employment and economic conditions generally which is made possible by the loans provided by the Bank.

The Bank can make loans not only to member governments but also to government agencies, provinces, states or municipalities or private concerns in member countries, provided that member governments or their Central Banks guarantee the loan. Already the Bank has had applications, or notices of impending applications, for reconstruction loans totalling well over two billion dollars. The most important requests have been from France, Holland, Poland, Czechoslovakia and Denmark.

The two organizations that I have been discussing can contribute much to post-war trade and prosperity. But of themselves they are not enough to meet the problem. A broad attack on high tariffs, discriminatory trade practices and restrictive quotas is also needed.

Recognizing this fact, the Economic and Social Council of the United Nations passed a resolution in February, 1946, calling an International Conference on Trade and Employment. This resolution stated that the Council considered it essential that the cooperative economic measures already taken be supplemented by further international measures dealing directly with trade barriers and discriminations.

A preparatory Committee composed of the principal trading nations of the world was set up to prepare an annotated agenda for the Conference, including a draft Charter for an International Trade Organization.

The Preparatory Committee held its First Session in London last autumn. At this meeting, tentative agreement was reached on most of the provisions of a draft Charter for the projected International Trade Organization. However, a number of the most important clauses were carried over for further consideration at the Second Session which, as you know, is now meeting at Geneva.

At this meeting, eighteen member governments are undertaking detailed negotiations on rates of duty and margins of preference, as well as attempting to complete an agreed draft of an International Trade Organization Charter for presentation to a later conference of all the United Nations.

The actual tariff negotiations are being carried on bi-laterally between pairs of countries, but the resulting agreement will be multilateral in form and in legal effect. The first step was the exchange of preliminary lists of tariff concessions desired by each country from other countries. This was done in part before the Conference met. The second step was the exchange of schedules of opening offers by each country in response to the

requests made upon it. The third stage has now been reached, and the delegations are hard at work on detailed tariff negotiations, item by item. Bargaining on particular items is usually conducted with the principal supplier, but in some instances a product may be the subject of negotiations with more than one supplier. However, each country will be entitled as a matter of right to every tariff reduction made by every other participating country. This is important to Canada. It means that we will receive the benefit of all concessions made both to ourselves and to others.

If advance plans are carried out without change, each participating country will sign a "General Agreement on Tariffs and Trade" at the conclusion of the Geneva Conference. It is intended that this document reproduce many of the provisions of the International Trade Organization Charter, in particular those which relate directly to tariffs, preferences and quotas. It is also to include schedules of all tariff concessions which have been negotiated. There is to be one schedule for each of the participating countries, including Canada.

The Geneva Conference is an ambitious undertaking. Never before have multilateral negotiations been conducted on such a wide scale. The outcome is of major importance to Canada, and to all other countries with a large stake in world trade.

Statements made in the House of Commons by various members of the Government have made it clear that Canada will contribute her full share in the general give and take which will be necessary to reach a mutually satisfactory agreement. It has been made equally clear that the new arrangements must be mutually advantageous, and that Canada does not intend to give up advantages which it now enjoys -- I am thinking particularly of Empire Preferences -- except for something which is better for all concerned.

I hope and trust that at Geneva an agreement will be reached which will provide for substantial tariff reductions by each of the participating countries, to the advantage of all. Such an agreement would clear the way for completion of the International Trade Organization Charter, and for its acceptance by most or all of the United Nations at the forthcoming International Trade Conference. It is only at this final stage, that is, at the general International Trade Conference to be held this fall, that governments will be asked to make binding commitments in respect of the Charter as a whole.

The achievement of an expanding volume of trade and rising standards of living throughout the world require effective international cooperation in respect of each important phase of economic policy. Accordingly, it is proper that the Charter of the International Trade Organization should contain provisions establishing a code of behaviour relating to commodity agreements, international cartels, maintenance of employment, encouragement to economic development, state trading, customs administration, and such direct barriers to trade as tariffs and quotas.

In dealing with such a wide variety of problems, the Charter must recognize and take into account the different situations and needs of various countries. However, care should be taken to avoid exceptions and expedients which conflict with the general objective of reducing trade barriers and removing discriminations to the greatest possible extent. The draft Charter now contains a good many qualifications and escape clauses applying particularly to the vitally important parts of the agreement that relate to quantitative restrictions on trade. Good arguments can be made, and are made, for each of these. But we must guard against the danger that if too many of them are included the sum and substance of them all, taken together, may undermine many of the positive benefits which the Charter is intended to give to each of the agreeing countries. Canadians are particularly concerned about any undue qualifications of commitments respecting agricultural products, exports of which are of such great importance to us.

It must be recognized that the ability of many countries to give up quantitative import restrictions and discriminatory practices is conditioned by balance-of-payments difficulties. Many countries today are short of United States dollars, and will remain short unless and until imports into the United States increase greatly, unless of course other steps are taken to make available to them an adequate supply of United States dollars.

This fact places squarely on the United States a great responsibility for leading the way in the reduction of tariffs and the removal of administrative practices which restrict imports. Only if other countries have reasonably free access to the American market, can they be expected to adopt the liberal, nondiscriminatory trade policies contemplated in the International Trade Organization Charter.

Canada has a double interest in reduction of the American tariff. First, our own exports to the United States would benefit. In the second place, the ability of European countries to maintain their present heavy purchases from Canada depends on their ability to market more and more of their own products on this continent. Loans can help our overseas customers for the time being, but their capacity to remain good customers permanently depends upon enlarged markets for their exports.

Great difficulties stand in the way of maintaining and expanding world trade. The solution of these difficulties requires a body through which international cooperation can be effectively exercised. The International Trade Organization is being fashioned to meet that need. It should play a part in the field of trade comparable to that played by other specialized agencies of the United Nations. Without it, the International Monetary Fund and the International Bank for Reconstruction and Development would be left incomplete and unable to fulfil effectively the functions for which they were established. Together, the three organizations provide for a comprehensive approach to the problems of international economic cooperation.

In concluding this survey of international financial relations, may I say that I believe the next year or two are likely to be of crucial importance. Important institutions of international collaboration have been established in the form of the Fund and the Bank. They are endowed with large financial resources which provide not only sources of financial assistance but also a forum where countries can calmly discuss their problems with each other before they reach a critical stage. Through the International Trade Organization an attempt is being made to provide rules of conduct which will make for expansion and not contraction of world trade. Expansion of trade and the removal of unnecessary restrictions on trade will help greatly to create the basis for an enduring peace.

I do not believe that the measures which have been taken and the new international institutions that have been set up are cure-alls that will overcome the many difficulties in the fields of international trade and finance. I do believe, however, that they offer a practical approach to a solution of our problems.

Our task now is to manage our own affairs with care and diligence and to participate to the best of our ability in carrying out the operation of the new international machinery which we have helped to establish. Only in this way can we enable our own industries, our farmers and our miners to find satisfactory export markets over the years to come. In this way I think lies the best chance of Canada continuing to enjoy peace and prosperity.

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