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Supplementary Paper

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An address by the Minister of Finance, Mr. Douglas Abbott, made at the Fifth Annual Virginia World Trade Conference, Richmond, Virginia, October 1, 1953.

I am happy as a member of the Canadian Government to be invited to speak to this important American businessman's meeting. I suppose that we Canadians are apt to take for granted our rather special relationship to the United States, our special relationship of being old friends, next door neighbours and good customers of each other. You don't always find all those three qualifications running together.

One result of this special relationship is that Canadians often have the chance to come down to visit and to make speeches in the States, and similarly your public men and business leaders are frequent and welcome guests in my country.

My topic this afternoon is "Canada's Trade and the World's Trade". That is a vague and general title. More specifically I am going to talk about two things. First, I want to give you an outline of Canada's trading position. Second, I want to talk about the problems of trade between Canada and the United States.

Canada is a good example of a type of economy quite different in a way from that of the United States. It is an economy in which a large proportion of our national income comes from international trade. About a quarter of Canadian incomes come from selling our goods to the rest of the world, and about a quarter of our incomes are spent on goods produced in other countries. Canada is an example of what you might call a "high-trade" nation. You in the United States do a big exporting and importing business, but as a proportion of your total business it is much less than ours in Canada. I believe that only about six per cent of your incomes arise from exporting, and only about five per cent of your incomes are spent on imports. To people who are in the importing and exporting business, these percentages don't mean very much, but from the national point of view they reveal a great deal about the shape of our two economies.

We in Canada are much more sensitive to economic disturbances arising abroad than you are in the United States, because we must make a large part of our living by selling to customers abroad. And, of course, we are particularly sensitive to changing economic conditions in the United States -- because you are our best customer and we are your best customer.

A few facts will help fill in the picture. When the territory that is now Canada -- a territory which Voltaire once contemptuously dismissed as a "few acres of snow" -- was first being explored and settled, the major sources of wealth were cod-fish and beaver. It was with these natural resources of a wild land -- and sea -- that incomes could be earned. And it is still true that a very important portion of Canada's international trade is with the primary products of the farm, the forest, the mine and the fisheries of the rivers and the seas. There are certain basic commodities -- wheat, nickel, copper, lead, zinc, pulp and paper, timber, fish, asbestos -- of which we are large-scale efficient producers and with which we can compete in international markets. It would be unsound and unwise for us to try to switch labour and capital away from the production of these products and into the production of the various goods which we purchase abroad. And it would be equally unsound and unwise for our customers to try to get along without that economical Canadian production.

But the last generation, and particularly the last twelve years, has seen the development of extensive Canadian industrial capacity. Our early industrial undertakings were designed either to develop some product for the local market or to work up some raw material into a more valuable state than its raw form. A large portion of Canadian industrial capacity is still devoted to the preparation of primary products for the foreign market. There is substantial Canadian investment in mineral refining capacity -- indeed one of the most obvious examples is the aluminum refining industry established in Canada because of cheap hydro-electric power, but dependent upon imported bauxite ore.

But what is more significant, I think, is the rapid expansion of Canadian manufacturing. As I have said, manufacturing in Canada, as elsewhere, was first established to serve the local market. The First World War brought a rapid expansion, particularly in the metal-working industries. The twenties and thirties brought increasing diversification and the development of a considerable reserve of skills. But the great period of expansion, in which we are still engaged, began with the Second World War. The needs of modern war forced a rapid expansion of our manufacturing capacity. A good many of us used to think of Canadian manufacturing as being pretty high cost; we thought that most Canadian manufacturers could serve only the home market, that they would be unable to compete in foreign markets with the products of other countries where manufacturing firms had been longer established and where plants were somewhat larger. But the Second World War and the consequent expansion of Canadian manufacturing capacity changed that. Many Canadian manufacturers now compete in many foreign markets, and they feel sure that if import restrictions were removed they could compete in many others.

The expansion of Canadian factories has not made us more self-sufficient. Of course, certain articles which once had to be imported from abroad are now made in Canada. But our needs for manufactured imports have shifted to other articles. Given the complexities of modern production, and the variety of modern wants, there always will be large numbers of manufactured goods which we can obtain more cheaply from abroad. But there is likely to be a continuing shift in our demands as new industries become established and new wants are born. And, of course, during the period of rapid business expansion a good deal of our imported manufactures are bound to be capital goods.

The more important effect on our trading position of our expanded manufacturing and industrial capacity is, I think, to broaden the base of our export trade. But in spite of this, food and primary material exports are likely to be, for the foreseeable future, the mainstay of our foreign trade and income.

Industrial expansion in Canada, beginning with the Second World War and still continuing at a high level, has been financed both by a high level of savings in Canada and by capital from abroad. I know that a good many people believe that we are being sustained in our rapid growth by a flood of capital from the United States and from overseas. That is not true. In our earlier periods of expansion we did rely upon investment from the pools of savings in other countries, particularly from Great Britain. But in the current expansion there is a much more specialized flow of investment. The total of Canadian savings through the period since the end of the war has been sufficient in fact to finance the whole of our investment programme. But some of our savings have gone to increase the already substantial Canadian investment abroad. Some of it has been used for long-term loans to our friends overseas and to support our traditional customers during the post-war adjustment. In turn we have used specialized capital from abroad.

Recently we have seen the expansion of British manufacturing capital in Canada and also the expansion of British investment houses who plan programmes of diversified investment in Canadian securities. Risk capital from the United States has been coming in to help develop our natural resources. There has also been sizable investment by American manufacturing companies in branch plants in Canada. This latter flow of American investment, as well as the expansion of British-owned capacity in Canada, is the natural result of the growth of the Canadian domestic market. With the increase in our population -- there are now around 15 million of us -- and with a rising standard of living, the production of more varied goods for this increasing Canadian market is becoming more profitable.

I have mentioned both the changes in physical capacity which lie behind our changing trade pattern and the investment flows which lie behind those changes in physical capacity. I want to turn for a moment to one other aspect of our trade picture which I think is worth noting. That is our adoption of a free rate for the Canadian dollar. I am not one of those who take any special pride in the fact that for some time the Canadian dollar has been at a premium over the American dollar. What I am interested in is the effect of a free rate on our overall balance of payments position. Since the war we have found that there are likely to be very wide swings in the balance of our merchandise trade. One year we may have a big surplus, another year we may have a sizable deficit. And the pattern of our trade alters rapidly over the year. When we maintained a fixed rate for the Canadian dollar we found that there was considerable pressure on the exchange reserves -- our reserves of gold and dollars -- as people abroad with short-term funds gambled on our ability to hold the rate at a fixed figure. When we adopted a free rate, we eliminated this one-sided gamble on the exchange rate. The swings in our exchange reserves have thus been reduced. In this situation, quite minor movements in the rate for the Canadian dollar have achieved the necessary adjustment; and our exchange reserves have fluctuated less than they did when we tried to maintain a given rate.

For a country like Canada, with a quarter of its income arising from foreign trade, this use of a free rate offers some pretty important advantages. From my point of view, it has the distinct advantage that it relies upon the impersonal and pervasive working of prices rather than upon direct controls. Direct controls sooner or later become disjointed and inequitable. It is better, when choosing policies for the long pull to avoid those devices which are likely to become inequitable and more and more difficult to administer. I should emphasize, however, that the reliance upon the general effects of a free exchange rate would have been impossible without the restraint upon inflation secured by balancing our national budget and by the modest debt reduction which we have been able to achieve. A free rate is no substitute for sound monetary and fiscal policy.

Just a word now about Canadian trade with the United States. As I said a moment ago, Canada is your best customer and the United States is our best customer. Really large-scale trade between our two countries has been going on for so long that we almost take it for granted. To take a few examples. You in the United States buy 90 per cent of our newsprint exports, 80 per cent of our wood-pulp exports, 60 per cent of our asbestos exports and half of our non-ferrous metal exports. In turn, Canada buys from the United States a very large portion of its imports of consumers' and producers' manufactured goods. We import fruit and vegetables from you during certain seasons and we buy most of our cotton from your Southern States. Neighbours usually do a good deal of trading with each other, but this trade between Canada and the United States is the biggest two-way trade between two nations anywhere in the world.

It is clear that the trade between our two countries is of great importance to each of us. We sell you more than we sell to all the countries of the British Commonwealth and of Latin-America and Europe -- more than the total Canadian exports to all these markets. We buy from you more than we buy from the other nations of the British Commonwealth, from Latin-America and from Europe. You sell us more than you sell the United Kingdom, Mexico, Japan and Brazil -- your next four best customers.

Canada almost always has a deficit on its trade with the United States. When there was worldwide convertibility of currency we could readily convert our surplus with other countries by selling those foreign currencies we had earned and paying our deficit with the resulting dollars. Sometimes, of course, we financed our deficit with you by borrowing in the United States. Very often the actual sequence of events was the other way around. Individual Canadian businessmen and provincial governments and municipal governments borrowed in New York and spent that money to buy American goods, mostly equipment to expand our industrial organization and to build roads and other forms of national capital.

Since the end of the war we have tended to maintain a very high level of imports from the United States. And, as before the war, our high level of imports has been in part a result of the substantial American investment in Canada, though of course, even if there was little American investment in Canada, an expansion of our industry on a scale comparable with our post-war growth would inevitably mean a high level of imports from the United States. Some of our more experienced pessimists in Canada get pretty excited about the tendency of Canadians to buy American goods. Well, when incomes are high in Canada, when times are good, a lot of Canadians want to spend their extra money on American goods. In that respect we are like a lot of people in other parts of the world. And, when our industry is expanding, a considerable proportion of our capital equipment has to be purchased here. There would be widespread dissatisfaction in Canada at any attempt to artificially restrict the purchase of American goods. Indeed, our experience with artificial restrictions like direct controls during and after the war is that while they are sometimes unavoidable as stop-gap measures they produce many inequities and many protests. They are not a good way of carrying on a regular business.

That brings me around to that very well-worked-over subject -- freeing trade.

As I have emphasized, in recent Canadian economic policy we have tended to rely upon the price system working for us rather than our working against it. We have abandoned trade and currency controls imposed during and after the war. We have, through the mechanism of the General Agreement on Tariffs and Trade, signed agreements with thirty-four countries reducing their tariffs on the entry of Canadian goods and reducing our tariffs on their goods. We have followed a consistent policy of freeing trade. Like any other "high trade" nation we can only maintain a high standard of living if there is a high and stable level of multilateral trade.

On the matter of tariffs, I am on the firing line, so to speak. I am the minister most directly responsible for tariff changes, and I know how forcefully the argument can be made by the representatives of some particular industry that the tariff ought to be raised. However, when you hear a demand for high tariff protection, it is pretty hard to escape the conclusion either that tariffs are being sought as a substitute for real competitive endeavour, or that resources and men are being employed in the wrong industry. The only thing you can set against that clamour for tariff protection or some other kind of protective restriction upon trade is the general interest we all have as consumers and citizens. Sometimes I think that if the consumers of our countries were more powerfully organized, as consumers, they would soon become a pretty powerful anti-restriction lobby.

I think we have to face up to the fact that if we want to have a higher level of world trade, and a more stable world trade, someone is going to have to make adjustments. There's not much sense in just talking about freer trade -- you can see that my presence here proves that there isn't any tariff on talk -- there's no sense in talking about freer trade unless we are ready to face up to the adjustments that it must mean -- adjustments that will be in our mutual interest. I think we are all convinced that the great strength of the American economy -- and the Canadian economy -- has in part at least been created by a very real devotion to the ideals of free competition. In this half continent there was plenty of scope for initiative and ambition, and there were plenty of the inefficient who went to the wall. That goes in international trade. If we believe in more competition then our people generally and our governments must be prepared to resist special pressures to restrict unduly competition from foreign goods. Naturally, as a Canadian, I feel that you here in the States should not place new restrictions on the purchases of goods from your best customer. Indeed, in these anxious times it's more than just a matter of business common sense. When your government and mine are considering the claims of some particular group to increase protection, considerations of national security -- of maintaining a strong and versatile economy -- must weigh heavily. I think our common security can be greatly strengthened by maintaining a stable and high level of trade between our two countries and between North America and Western Europe. That can be best achieved by relaxing rather than renewing restraints on our trade. I know that at this Fifth Virginia World Trade Conference the majority of you will share that view.