



## STATEMENTS AND SPEECHES

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UNITED STATES AND CANADA -- A PATTERN  
FOR ECONOMIC CO-OPERATION

Address by the Honourable Douglas Abbott,  
Minister of Finance for Canada, before  
the Missouri Bankers' Association, St. Louis,  
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Mr. Chairman, I realized when I accepted your kind invitation that if I had anything to sell, it had better be good - Missourians are not often taken in. I have nothing to sell - I simply wish to talk about how Americans and Canadians do business with one another and how our far-reaching relationships can be further improved and expanded in the arresting circumstances of to-day.

It is not unusual for speakers from Canada, when invited to address an audience in the United States, to reproach our American friends for not taking a greater interest in their Northern neighbour -- for not knowing more about us beyond the fact that Canada is large, cold, and populated for the most part with scarlet coated mounted policemen and speckled trout and for the rest with a friendly people who are not given to making revolutions or causing other kinds of trouble. In one sense, Canadians may regard this lack of interest as a compliment, for in the life of a nation as in that of man a thousand good deeds are soon forgotten. But it is not always an advantage to be taken for granted. At times it is a definite disadvantage. When difficulties do arise and the co-operation of our friends is needed, we are sometimes rebuked with that "not you too" attitude.

The reverse is not true. The average Canadian knows a great deal about your country. He buys your products; reads your newspapers; sees your films; listens to your music; takes as much interest in a world series as you do and knows your leading public figures and their policies. In brief, he partakes deeply of almost every aspect of your cultural, political and economic life. Perhaps the fault lies with us, we may be too reticent and retiring, too silent about ourselves. We are never too old to learn, and perhaps now is a good time to begin.

In at least some respects, Canada is the most important foreign country as far as United States interests are concerned. The total trade between the United States and Canada exceeds that between any other two countries in the world. Your trade with Canada virtually equals in value that of your trade with the United Kingdom, France, China and Russia combined. You sold to Canada during 1947 two billion dollars worth of exports, more than your combined exports to your next two biggest customers, and much more than the combined exports to your three largest Latin-American markets, Mexico, Brazil and Argentina. Over 75 per cent of Canada's total import requirements came from the United States during 1947. During the same year, you purchased from Canada no less than a billion dollars' worth of goods, 40 per cent of our total exports, and much more than the combined total from your two next best sources of supply. It is significant to note that Canada with only 12½ million people purchases twice as much from the U.S.A. as your 145 million people purchase from Canada. Herein lies the nub of the balance of payments difficulties Canada finds herself in to-day.

Under the surface of these trade statistics lies the most essential and fundamental feature of economic relations between the U.S.A. and Canada. Our economies, though in some respects competitive, are largely complementary and mutually interdependent. We rely on the United States for vital industrial materials, machinery and manufactured goods, such as coal, oil, cotton, steel, machine tools. By the same token, your country is highly dependent on Canada for such basic essentials as newsprint, wood-pulp, lumber, nickel and asbestos. Believing with confidence that supplies would not arbitrarily be cut off during periods of shortages, we have been able to develop our production on the basis of economic co-operation rather than of autarchy. We have thus extended the field of specialization and thereby enhanced the standard of living of our peoples. We have not been driven to attempt lines of production which, though technically possible, could only be produced at much higher real cost.

Investment, like trade, has acted as a powerful economic link between our countries. United States investments in Canada exceed 5 billion, roughly 70 per cent of total foreign investments in Canada -- more than your total investments in Central and South America combined. These investments, from the point of view of safety, security and returns have been by long odds your best foreign holding. You are currently receiving interest and dividends at the rate of 275 million a year, all in cold hard U.S. dollars; nor does this figure exhaust your returns from Canadian holdings. The flow of investment capital across our border has been a two-way movement. It would probably surprise you to know that Canadian investments in your country on a per capita basis are considerably greater than your investments in Canada.

There are many other aspects of economic relations between our countries which are equally impressive. I know I need not labour the point. I have said enough to indicate that our economic inter-relations are vast and vital. They are being conducted in a most friendly and co-operative manner. They have served to enhance the welfare and prosperity of both countries.

Our relations in the past have not always been as happy as they are to-day. We did not come by them easily. It took one war to teach us the wisdom of living in peace but that was as long ago as 1813. It took us much longer to learn the meaning of effective co-operation in the economic field. As recently as the early thirties both our countries implemented policies which virtually amounted to trade warfare. Beggar-thy-neighbour policies as typified by these prohibitive and discriminatory trade barriers did much harm to both countries. The mutually advantageous trade agreements of 1935 and 1938 enacted under the Hull Reciprocal Trade Agreements Act, reduced tariffs in a sensible manner and made possible a great recovery in trade between Canada and the United States.

The genius of our two peoples is best applied in periods of stress and adversity. So it was during World War II.

An understanding on the question of defence reached at Ogdensburg between your President and our Prime Minister pointed to the need for co-operation and integration on the economic plane. The Ogdensburg Agreement, therefore, was soon followed in the economic field by the Hyde Park Declaration of April, 1941, which became the Charter of Canadian-American economic co-operation during World War II. The fundamental proposition underlying the Declaration was that the United States and Canada in mobilizing the resources of North America should concentrate on those essential goods which each was able to produce quickly. It assured that the economic and military strength of the two countries would suffer no more than was absolutely necessary by reason of their being separate countries. It recognized, at the same time, the importance of the closely related problem

of protecting the Canadian balance of payments position vis-a-vis the U. S. A., which was being subjected to very heavy pressure by virtue of the heavy shipment of war goods from Canada to the allies. The implementation of the Hyde Park Declaration involved an entirely unprecedented co-ordination of the economies of our two countries, contributed important material benefits to both countries and expedited the successful termination of the war.

The economic agreement announced at Hyde Park has never been terminated. In May of 1945 your government proposed to our government that the general principles of the Hyde Park declaration be continued on a fully reciprocal basis in the post-war transitional period. The Canadian government concurred and an exchange of notes in May 1945 confirmed the extension of the principle of the Hyde Park Declaration.

You may be asking yourselves why I have taken such great pains to stress matters which are largely of historical significance. There is a profound parallel between the problems of the war and the problems which are now facing both our countries. The material needs of our friends and allies for reconstruction are proving to be far greater than had been anticipated. Contributions are being made today which are introducing the same pressures and need for an integrated effort. The parallel is complete even down to the balance of payment difficulties which Canada is facing vis-a-vis the U. S. A.

Canadian-American co-operation during and after the war has by no means been limited to bilateral arrangements. Your country as the strongest and most powerful nation in the world, in co-operation with your friends and allies, shouldered the responsibility of launching a number of international institutions directed to the restoration of a multilateral trading and finance system.

As early as November 1942, the United States and Canada reached an agreement that looked forward to expanding their bilateral co-operation into world co-operation. They agreed that they would:

"seek to furnish to the world concrete evidence of the ways in which two neighbouring countries that have a long experience of friendly relations and a high degree of economic interdependence, ... may promote by agreed action their mutual interest to the benefit of themselves and other countries."

This titanic programme is now almost complete. A month ago the World Conference at Havana produced the Havana Trade Charter and prepared the blueprints for the International Trade Organization which will complete the three cornerstones for the long-term restoration of a rational trading and exchange world. In all this work Canadian Delegations played an active and effective role in reaching broad agreement. Since United States and Canada have worked so closely together in matters of bilateral interests we have found it comparatively easy to co-operate in the multilateral sphere and inspire other countries to do likewise.

Enlightened self-interest told us, as it told you, that the mere creation of international economic institutions would not suffice to restore the type of trading world and economic environment on which the welfare of both our nations depends. During the war we had believed it wise to furnish billions of dollars of goods free of charge to the United Kingdom and our other allies as direct gifts or as mutual aid, the Canadian equivalent of lend-lease. In the closing stages of the war and the immediate post-war period, we had continued to play our full part by contributions to military relief, to UNRRA, to post-UNRRA, and to other forms of international relief. Comparisons are invidious and I am not making this statement with a view to writing comparisons or in any way to detract from the truly magnificent

contribution which your country has made and is making to achieve world recovery. I can say, however, that on a proportionate basis, the aggregate of Canada's free contribution to other countries during and since the war ran to almost three billion dollars and compares favourably with the contribution made by any other country.

The need for and wisdom of this contribution in wartime were obvious. It seemed equally obvious to Canada at the end of the war that immediate and large scale assistance to help in restoring the war-ravaged economies of Western Europe was a necessary prerequisite to the creation of the conditions on which a multilateral world depends. Since the termination of hostilities, therefore, Canada has, through loans and credits, been carrying on a European recovery programme of her own. Under the Export Credits Insurance Act and the United Kingdom Financial Agreement, credits in the amount of approximately \$1,850 million were authorized for the United Kingdom and countries of Western Europe and China. On a per capita basis, or in relation to national income, such Canadian contributions to European recovery have not been equalled by those of any other country. A comparable contribution by your country on the basis of relative population would have been over \$22 billion and on the basis of relative national income, which is a more appropriate basis, would have been over \$33 billion.

Canada seeks no special praise for these measures. It was certainly in our long term interest to see recovery in those countries with which we have always carried on a large and mutually profitable trade, and with which we were so closely associated in our common struggle. With world developments as they have emerged, the fundamental soundness of our policy has been clearly confirmed.

The facts I have presented to you concerning Canadian assistance to European recovery are important in themselves. I hope that they will serve to clear up some of the misunderstanding that has been revealed in certain discussions of the relationship of Canada to the Marshall Plan. The main reason I have presented them, however, is because they are closely related to the present Canadian dollar problem.

In undertaking the extension of credits to Europe, we hoped that our large dollar reserves, carefully used, would suffice to carry us through the post-war transitional period. Once some degree of normalcy had been restored in the structure of world production and trade, we expected again to be able to settle our international accounts via the traditional mechanism of multilateral settlements, assuming, of course, that currency convertibility had been restored over a wide area of international transactions. At the end of the war, we were able to look to our long term interests in this way, because our dollar reserves were then substantially greater than our normal requirements. We were prepared to dip into our reserves to extend assistance to Western Europe as part of a far-seeing and sound post-war programme. Events have shown that our hopes were too optimistic. Nearly everybody, even the extreme pessimists, underestimated the degree of dislocation and devastation which the war left in its wake. No one, moreover, made sufficient allowance for certain adverse developments which have materialized. As a consequence, the valiant efforts of the war-ravaged economies, combined with extensive help from North America, did not suffice to produce recovery as quickly as we had hoped.

Meanwhile, the reconversion from war to peace production in Canada proceeded swiftly and smoothly. Employment and national income, consumer expenditures and capital investment reached peak levels never approached in the past. This resulted in an unprecedented demand for imports which, owing to the slowness of recovery in Europe, came largely from the U. S. A. This combined with the sharp rise in the price level in your country, meant a more rapid depletion of reserves than would normally have occurred.

The Canadian exchange problem can therefore be stated in terms which every business man will appreciate. We were buying on a huge scale from the United States and paying cash for all our purchases. At the same time we were selling heavily on credit to the United Kingdom and Western Europe in order to help in the reconstruction of these economies. A decline in our gold and U. S. dollar reserves was inevitable -- they fell from about \$1½ billion at the end of 1945 to half a billion by November, 1947. Obviously this decline could not be permitted to continue. On November 17, 1947, therefore, the Canadian Government adopted a double-pronged programme to halt the rapid depletion of our exchange reserves and to 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. The importation into Canada of a long list of consumers goods which we could readily spare was prohibited. Quota limitations were placed on a longer list of similar goods. Capital goods imports were put on a permit basis. Canadians desiring to travel to the United States for pleasure purposes were limited to 150 U. S. dollars per annum. This action was not pleasant for our people -- it was not pleasant for our American friends. It was adopted with great reluctance after every possible alternative had been examined. There was no other approach that would work. This negative and restrictive side of the programme will be abandoned as soon as circumstances make it possible. Incidentally, I should emphasize that these restrictions are not designed to have a protective incidence. The Government to which I belong has issued clear warning that it will in no way encourage uneconomic development of enterprises which will not be able to compete on a sound and lasting basis. We are only interested in the expansion of efficient production and the development of resources that are indigenous to our economy.

On the positive side, the programme has many ramifications, all of them directed to solving our dollar problem in a constructive way by increasing production and exports and thereby achieving a better balance in our trade with the dollar countries. To the extent that the achievement of these objectives depend on wholly Canadian efforts, I can assure you that effective and vigorous measures are already in operation. We are also in contact with your government and carrying on continuous consultation on co-operative measures to help solve the underlying difficulties and facilitate the earliest possible removal of the temporary restrictions.

We believe that we can expand our exports to you substantially of commodities which you need and want. You must, we believe, be prepared to import on a much larger scale than you are presently importing. Unless that is done, there can be no solution to our problems in a constructive and expansionist manner. The Geneva Agreement on Tariffs and Trade, which is now being provisionally applied, is a long step in the right direction, and should serve to facilitate the freer flow of trade between our countries.

Now, some of you have no doubt heard it suggested that Canada should depreciate her dollar as a method of correcting her present U. S. dollar deficiency. I should like to make the position of the Canadian Government quite clear on this matter. We have rejected currency depreciation because Canada has not the kind of problem for which that is an appropriate or effective remedy. Currency depreciation may be helpful to a country which is in balance of payments difficulties because its costs and prices are too high to enable it to compete effectively in world markets. There are undoubtedly a number of countries in this position to-day, but certainly not Canada. On the contrary, we have kept our costs relatively low, and at current rates of exchange our staple exports can be sold in the markets of the world in competition with any other country.

Too much attention should not be paid to the variations in the

unofficial market for the Canadian dollar in New York. This is a narrow market which is supplied by Americans who have obtained Canadian dollars from the sale of Canadian investments -- dollars which we cannot afford to transfer at the official rate. The dollars purchased in this market are limited in their use to one or two purposes and can only be purchased by non-residents. Therefore, only a small fraction of the exchange transactions involving Canadian dollars goes through this unofficial market and it is not surprising that it frequently reflects completely unfounded rumours concerning possible depreciation of our dollar. The vast bulk of our business with your country, including all imports and exports and all other current transactions except part of your tourist expenditures in Canada, goes through at the official rate of exchange. Every penny, for example, of the large interest and dividend payments which are made to your investors is transferred at the official rate. Since the beginning of the war and in spite of all the exchange difficulties that we had in the early part of the war, we have paid over \$1 $\frac{3}{4}$  billion in interest and dividends to your investors and we have paid every cent of it at the official rate. U. S. investors have had a remarkable record of safety and satisfaction with their Canadian investments. They have seen Canada face temporary difficulties in the past and always take the steps necessary to correct the situation. Those who really know us are confident that we will solve our problems. We are proud of that confidence and we believe it to be soundly based.

There has been some confusion as to why Canada is in dollar difficulties. For example, you may have heard the argument presented that there is a parallel between the Canadian dollar shortage and the dollar shortages of the United Kingdom and countries of Western Europe. Actually, they are similar in one respect only -- that is, they all derive from the basic disequilibrium in the balance of trade of the United States. The differences are certainly more fundamental. The essential problem in the United Kingdom and Europe is one of production and exports -- Canada has no such problem. The expansion of industry and production in Canada during the war was phenomenal. That growth is still continuing. We are experiencing no unemployment. On the contrary, there is a manpower shortage. Our national production is at the highest point in our history and is still growing. As a result, we are exporting more than we are importing and we have an over-all surplus in our current transactions with the rest of the world. Our problem is merely one of balance with one part of the world, and relatively simple and superficial compared with the difficulties of the rest of the world.

Canada has taken a very serious interest in the Marshall plan since that historic day of the speech at Harvard almost a year ago. The Canadian interest in the European Recovery Programme is mainly directed to the effect it will have in restoring health and normalcy to Europe. There can be no satisfactory solution of the long term Canadian problem independently of a solution of the European problem, unless we are to suffer serious shifts in our entire structure of production and trade and serious inroads in our standard of living. Hence the Canadian stake in the European Recovery Programme is a heavy one. Of course, we are also interested in the immediate effects the Programme will have in increasing the international supply of U. S. dollars. It will mean that we can continue to ship essential food and material to Europe and receive payment for a substantial portion in hard currency. This will enable us to pay for essential U. S. imports without which our material contribution to European recovery would be seriously impaired. It will enable us to carry on and to play our part in European Recovery without the need to impose further restrictions on our imports from the United States.

I have indicated earlier in my remarks the extent to which Canada has contributed to European recovery. I can only add now that Canada will continue to work for European recovery to the extent of her capacities,

material and financial. Even if we could, we would not want to sit back on our laurels and leave the rest to Uncle Sam. It is as much in our interests as in yours to see Europe recover.

Canada will participate in the Marshall Plan in two ways. We will supply a large volume of goods; foods such as wheat, grain and meat; basic raw materials such as lumber and base metals -- and to some extent, manufactured goods such as agricultural implements. The supply of these goods from Canada will serve to ease the pressure on the United States economy. With respect to the financial side of our contribution, I should like to give you an indication of the considerations involved and the limitations imposed by the dollar exchange circumstances that we find ourselves in. Broadly speaking, a country is able to give or lend abroad the surplus of its current receipts over its current payments in international transactions. For short periods it is possible to increase this figure to the extent that it can draw on its reserves of foreign exchange and gold, or to the extent that it is prepared to get into debt to another foreign country. The present state of our reserves precludes the extension of gifts or credits beyond our current account surplus -- less an amount necessary to build up our present abnormally low reserves. We cannot undertake more than is possible without impairing the health and stability of the Canadian economy. Any such impairment would certainly not be in the best interests of your country or mine. It would add to the problems of the Western world, not to help solve them.

We live in confused and troublous times. Fear and suspicion harass our every effort to establish peaceful and friendly relations between the nations of the world. In these critical times the relations between Canada and the United States stand out uniquely as an example of the mutual benefits that can be reaped if nations will learn to co-operate and live together peaceably. Both our countries have been spared the direct ravages of war. In that good fortune we must not forget our friends and allies who have been less fortunate. It is to the countries of the Western hemisphere that the present ravaged and disrupted world looks for material and spiritual sustenance. It is vital that we remain strong and united. Never before in our history - not even during the darkest days of World War II - was there greater need for a combined, co-operative effort to overcome the forces of evil and despair, violence and tyranny.

Canadians are realists. We recognize and are proud of the growing importance of our country in international affairs. But that pride does not blind us to the simple truth that your country occupies a central place in the world to-day. You emerged from World War II as a giant among nations. In your hands rests the power and the means for world leadership - and with that power rests responsibility. The destitute and the oppressed of the world look to you for leadership and support. No other country can begin to do what you can do. Great Britain and Canada can help -- but they cannot lead. Only the United States can lead the world out of the sorry conditions which now prevail. Only the United States can provide the leadership and the help that can make the world the sort of place that your people and our people want to live in. Much depends on your internal strength, economic stability and moral stamina. We who know you well know that you are not unmindful of your responsibilities. We know, with confidence, that you will accept the challenge with determination and vigour. On your response depends the welfare and freedom of mankind. You may rest assured that Canada will not lag behind.