



## STATEMENTS AND SPEECHES

INFORMATION DIVISION  
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SOME CANADIAN PROBLEMS AND PROJECTS

An address by Mr. H. Hume Wrong, Canadian Ambassador in the United States, to the Canadian Society of New York, January 30, 1948.

Canadians who are called upon to speak to audiences in the United States can always count on a friendly reception. This is a happy circumstance, and long may it continue. The Canadian Society of New York can certainly be relied upon to provide not only a friendly audience, but also an audience a great deal better informed about Canadian affairs than nearly any other in the United States. For, unfortunately, one cannot often count on audiences in this country knowing much about Canada, a circumstance which often imposes upon the speaker the need for, to him, tedious repetition of some elementary facts.

I want tonight to describe some of the current problems which are engaging the attention of the Canadian Government and people, even if I have little that is new to you to say about them, and also to outline some Canadian hopes and aims in the present distressful state of most of the world. The Canadian Society has long filled a useful role in spreading abroad understanding about the position of Canada. Canada is now in need of greater understanding in the United States.

In the preface to an admirable recent history of the relations between the United States, the United Kingdom and Canada, a well-known historian explained that he felt himself forced to give Canada more attention than her relative importance to United States and Great Britain would ordinarily justify, because he could not count on much common knowledge about Canada. He went on: "Americans and Britons know next to nothing about Canada because they have usually been able to take her for granted without serious consequences to themselves". In this observation there is much truth. Now it is not always pleasant for anyone to be taken usually for granted, for that at times involves failure to consider one's feelings and one's interests. Because Canada does not often cause trouble, or become a source of dramatic headlines in the newspapers, or adopt policies which are resented in the United States, it may not be an exaggeration to say that the ordinary citizen of the United States knows more of the course of events in such far distant countries as Yugoslavia and Argentina than he knows about what goes on in the territory of his nearest neighbour.

The reverse of this is not true. The ordinary Canadian knows a good deal about what goes on in the United States. He reads it in his daily paper. This is natural and indeed unavoidable. With about 12½ million people in Canada and about 145 million people in the United States, it is obvious that what happens in the United States must be much more important to Canadians than what happens in Canada can ever be to Americans. The people of this country do not run much risk in taking Canada for granted, but nearly everything important that takes place here is of direct interest and concern to Canada.

Thus it happens that he still encounters very curious distortions in the ideas which plenty of Americans seem to entertain about Canada. Some relate to our system of government - for instance, that the Canadian Government is told what it should do from London, and that Canadians pay taxes to the United Kingdom. As another example, an eminent judicial personage not long ago expressed incredulity when I remarked to him that Canada was, of course, a monarchy. Distortions about the Canadian way of life can be more amusing. A large number of citizens of the United States when they happen to think of Canada, have hazy visions of great snowfields (partly encouraged by the habit of the weather bureau in describing cold waves in terms such as "a mass of Arctic air moving south from Canada"), and in summer, of a land of lake and forest, full of fish and game, a land inhabited largely by mounted policemen, hockey players, wheat farmers, whiskey distillers and quintuplets. These distortions have some slight foundation in fact, of course, and the ignorance which they reveal is disconcerting rather than dangerous. Canadians would like to be known for what they are and what they do; but behind the misconceptions there appears to me to be a general assumption that Canadians are a friendly, stable, reliable and unspectacular people.

It is true, I think, that if we were less friendly, less stable, less reliable and more spectacular, a good deal more would be known about Canada in the United States, but I do not recommend that Canada should deliberately depart from its present course of conduct in these respects. I do urge on you, however, that it would be greatly to the advantage of both countries if the people of the United States were to take a greater and more constant interest in the affairs of Canada. On the great issues of our era, the two countries are facing in the same direction. They are working for a common conception of democratic freedom, for which they have fought in two great wars. The shrinkage of space through the new mastery achieved by our scientists and technicians has made the people of both countries alert to dangers from which they previously considered themselves largely immune. Modern developments in technology, the enormous requirements of the North American industrial machine for great quantities of raw materials, the new concepts of defence and possible offence, the dependence of the rest of the world on North America for much of what it must get to recover from the war -- all these factors, among others, make an understanding of Canada in the United States more important than ever before.

We do not go in for much of the pomp and ceremony that marks the official relations between many countries. There is a constant interchange of official visitors between the two capitals. Many questions which might elsewhere be the subject of a prolonged exchange of diplomatic notes and heated speeches in national legislatures are here settled easily and promptly by some of those concerned sitting around a table in Washington or Ottawa. When the Prime Minister of Canada or a member of the Cabinet comes to Washington there are few, if any, of the frills and feathers that customarily are produced on such occasions. It is more a matter of a neighbour dropping in for a chat next door than a state visit. This is a very good way of getting things settled, but it also serves to provide little material for publicity, and therefore for spreading public knowledge about the problems which the two governments must so frequently discuss together.

For the fact that the two governments deal with their business quietly, without fanfare or excited appeals to public opinion, must not be taken to show that there are no serious issues to be settled. It is true that there are no issues of the sort that split countries apart and lead to the closing of frontiers, ultimata, and the marshalling of troops. It is not true that the governments have no serious problems between them to face and to seek to settle.

A recent illustration of this, to which I shall devote some attention, was the action which the Canadian Government was forced to take in the middle of last November. Since November 18th the importation into Canada of a long list of consumers' goods which had been entering almost wholly from the United States has been prohibited, and quota limitations have been imposed on an even longer list of similar goods. At the same time, Canadians who wished to travel to the United States for pleasure were severely rationed to a total expenditure each year of 150 U.S. dollars, and certain other measures were imposed to restrict Canadian expenditures in this country.

Now all this was directly contrary to the general principles of international trade and freedom of movement which have been long and sincerely advocated by the governments of both countries. It was a detour, as the Prime Minister described it, from the path which the Canadian Government had pursued and wished to resume. It was a detour which was followed with the greatest reluctance only under the hard pressure of necessity, a pressure which was recognized as unavoidable by the authorities in Washington in the friendly consultations which preceded the announcement of these unpleasant and unwelcome measures.

Why did the necessity arise? The Canadian economy was going full blast. It was producing more than it had ever produced before in time of peace. There was no noticeable unemployment, but rather a serious shortage of labour. The volume of exports and imports was higher than ever before and the over-all trade balance healthy. Many demands of Canadian consumers for things which they could only get in the United States were still unsatisfied. Canada seemed one of the very few really bright spots in a tormented world.

The basic trouble was that Canadians, who need a large volume of imports to keep going at all, were buying them all for cash, and over three-quarters of them were coming from the United States. They were buying about twice as much from the United States as they sold to the United States. More goods were going from the United States to Canada than to the United Kingdom and France combined, which are the second and third largest customers of the United States. While Canadians were sending abroad exports somewhat larger in value than their imports, a substantial proportion of these exports was being sold on credit to the United Kingdom and countries of western Europe.

Imagine a merchant who pays cash for all his stock, but at the same time extends long-term credit to perhaps one-third of his customers. If he continues to carry on business in this way, before long he will run through his capital in order to maintain his stocks and eventually he will go bankrupt. When he sees his business getting into this condition, he can cut down his outgo by reducing the volume and variety of the stocks flowing into his warehouse, and he can improve his income by restricting the credit which he extends to his customers. These are not pleasant things to do. The merchant does not like them; his customers do not like them; his suppliers do not like them; but they are better for all concerned than bankruptcy.

Canada was getting into this position during the post-war period. Because of the dislocations of the war and the unexpectedly slow recovery of Western Europe, it was not possible for some of our old and good customers, especially the United Kingdom, to pay cash for more than a part of their Canadian purchases. At the same time, the Canadian people needed large quantities of things which could only be secured from the United States, absolutely essential things, such as coal and steel and oil and machinery and cotton, and, as well, a lot of less essential things for which there was a large pent-up demand after the war, such as automobiles and refrigerators and radios and new clothes and early fruits and vegetables. There was no real buying spree in Canada; but people had wants, and money to fill a good part of those wants.

The result was they were buying too much for cash from the United States and selling a great deal on credit abroad.

A situation such as this cannot be treated in the way in which an auditor might treat the books of a merchant getting into difficulties. The United Kingdom and other countries severely stricken by the war desperately need Canadian goods - wheat and meat and other foods, lumber and base metals, railway equipment and so on. If they were told to pay cash for everything, they would have to cut their supplies drastically, and their recovery would be retarded. Canada therefore continued to sell these essential things largely on credit, in addition, of course, to carrying her fair share of providing free relief supplies. When a country sells things on credit, it must either export more than it imports to the amount of its credit sales, or use up its working capital of foreign exchange to pay for its imports. Canada was, in effect, financing out of her reserves of gold and dollars these exports sold on credit. It was hoped that the reserves would be large enough to fill the gap until the western European countries began once more to pay their own way.

Events have shown that that hope was false. Nearly every responsible person in early every country underrated the amount of time and the volume of supplies that were necessary to European recovery. This over-optimism was to be found in every country of the western world, in every political party and in all occupations. One of the most brilliant men of our age, who had been intimately associated with the planning of British recovery, the late Lord Keynes, wrote in an article which was published after his untimely death less than two years ago:

"Putting one thing together with another, and after pondering all these figures, may not the reader feel himself justified in concluding that the chances of the dollar becoming dangerously scarce in the course of the next five to ten years are not very high? I found some American authorities thinking it at least as likely that America will lose gold in the early future as that she will gain a significant quantity".

It has not however, been mere miscalculation, the underrating of the difficulties which had to be overcome, that has been responsible for the dragging pace of recovery. The split between East and West was not foreseen two years ago as likely to become a serious impediment to recovery in Europe, but it is now almost all-pervasive in its effect. On top of this came the terrible European winter of 1946-47 followed by the worst crops on that continent for many years.

In relation to resources, Canada actually risked a good deal more than the United States in assisting Europe towards recovery. I am often asked whether Canada will join in giving effect to the European recovery program. The answer is that since the end of the war Canada has been executing a European recovery program of large dimensions in relation to Canadian resources. Apart from contributions to UNRRA and other forms of relief which were made on a proportionate basis to the contributions of the United States, post-war credits extended by the Canadian Government to Western European countries have amounted to over one and three-quarter billion dollars. This may not sound very huge, but one must remember that the Canadian national income is only about one-eighteenth that of the United States.

A comparable figure for inter-governmental credits of all sorts extended by the United States Government during the same period to the same countries - the Marshall Plan countries - may be put, depending on what is included, at between a little less than \$8 billions and rather more than \$9 billions. If the United States Government had extended post-war credits on the same scale as the Canadian Government, the total would have been \$21 billions on the basis of relative populations, and \$31½ billions on the basis of the relative national incomes. I do not use these figures very willingly, and I would only use them to an audience particularly interested in Canadian affairs. I think that they show that Canada has been at the head of the line in giving assistance to Europe. They also demonstrate that, having done so much, Canada is deeply pledged to the fulfillment of the general purposes of the European Recovery Program of the United States. Finally, they illustrate the chief cause of the present Canadian dollar difficulties by revealing the extent to which Canada has been selling on credit while buying for cash.

In addition to the granting of credits, Canada has been and is selling a major part of her food exports under contract to the United Kingdom at prices well below the prices in the United States, and has thus reduced by a very large figure the amount of dollars, in cash or credit, needed to maintain the present dreary and austere diet of the British people.

We shall continue to do what we can to contribute towards European recovery, for we consider that recovery to be the first objective which must be attained before the sun can shine once more out of a clear sky. This is partly a matter of economics, partly a matter of politics, and partly a matter that goes beyond economics and politics into the recesses of conscience. It would be rash and inappropriate if I were to try here to summarize the issues in the great debate which is now going on before the committees of the Congress of the United States and the American people. It is not inappropriate, however, for me to assure you that Canadian people are not merely auditors sitting somewhere back in the arena, listening in hope that a few of the benefits of the European Recovery Program may come their way. They have already given ample proof, by what they themselves have done, of their desire and intention to assist, and you can rest assured that they will not relax their efforts.

Currently, in connection with the European recovery program, the word "contribution" is used in two different senses. Western Europe needs goods. Someone must contribute by producing goods, and someone must contribute by paying the producers for them. Canada can produce a good many million tons of the goods needed for European recovery, the wheat and other foods, the metals, the lumber, the machinery and so on, but Canada can in one way or another carry only part of the cost of the difference between what she can export to Europe of these goods, and what

she can get in goods, services, and cash from Europe in return. If we sought to cover by loans or grants the entire difference, we should soon find our own position impossible because we would no longer have the funds to buy the things we must have from the United States in order to stoke our economy and continue to produce the things that Europe must have from Canada. We hope to be able to meet a part of that difference in cost in one way or another, but we cannot yet be sure how much we can do.

The possible financial contribution of Canada to a continued European recovery program over the next few years must still, therefore, be designated by the algebraical symbol "x", the unknown quantity. The possible contribution of the material things from Canadian production needed for European restoration can be much more accurately calculated. It is much larger than many people in this country think. Although Canada has only one-twelfth the population of the United States and one-eighteenth of the national income, her total foreign trade in the latest period for which figures have been published amounted in value to one-fourth that of the United States; and Canadian exports are for the most part basic essentials coming from the farms, forests, mines, fisheries and factories of Canada.

While Canada has had to cut down on a large number of imports from the United States, there is one import which we are very anxious to increase, and that is the importation of visitors. Tourists pass through the hands of customs officers, but they do not figure in the import statistics. Although they are in fact both very tangible and very welcome and certainly enter the country just as visibly as a carload of coal, in the strange language of the statisticians they are known as invisible exports and count on the other side of the balance sheet of a country's payments. That, of course, is because they bring their own currency into the country and spend it there. The receipts in Canada from the tourist traffic have in recent years been a welcome offset to the Canadian deficit in U.S. dollars.

Now rumors seem to have been circulating in the United States to the effect that conditions of life in Canada are hard, that food is scarce, and that it would be well for tourists to stay away. Sometimes these rumours are supplemented by suggestions that everybody entering Canada is subjected to a very rigid customs examination. I hope that all of you who are here tonight will take any opportunity that may offer of exposing the absurdity of these stories. There is plenty of food in plenty of variety in Canada. The customs examination at the border is indeed more severe than it used to be, but only for Canadians returning from the United States. No change whatever has been made in the practice affecting American visitors. I doubt that an American visitor would notice any real difference as a result of the Canadian restrictions, unless he were an addict of pulp magazines or insisted on eating out-of-season vegetables.

We do not welcome tourists from the United States only for the dollars they bring. It is through this constant and intimate association between the peoples of the two countries that knowledge and appreciation of the qualities and efforts of each has been spread abroad. Visitors from the United States act in some degree to leaven the prevailing ignorance of Canada to which I have already referred. In addition to our need for dollars, it is greatly to be hoped that the tourist traffic will be maintained and increased partly because the Canadian Government has been compelled to restrict the movement of Canadians in the other direction. As Canadians cannot go South as readily as usual to see their friends in this country, I hope that those friends will go to Canada more freely than usual.

I have now briefly stated the main reasons why the world-wide dollar shortage has seriously affected Canada. I hope that I have made it clear that the main cause of these difficulties has been the effort of the Canadian Government and people to contribute towards the recovery of Europe, not from any peculiar national generosity, but from what I believe to be enlightened self-interest. When a person or a company or a country runs short of cash they must cut their expenditures or increase their incomes or do both of these at once. The measures taken by the Canadian Government of last November were designed promptly to cut expenditures in U.S. dollars by imposing restrictions on what Canadians could buy or could do, in their purchases or their movements, which would have to be paid for in that currency. Canadians don't like restrictions any more than citizens of this country, and almost everyone would much prefer to see the Canadian dollar problem met by increasing the earnings of U.S. dollars rather than by reducing expenditures in them. We hope that before long we shall emerge again into a world in which trade will be multilateral and currencies freely converted. That will take time, but it is the sort of world that we should like to live in.

We also hope that the heavy disproportion in Canadian trade with the United States will be reduced substantially by the sale of more Canadian goods in the United States. It is, after all, a little odd to find that in 1947 the 12½ million Canadians bought some \$2 billions worth of goods from the United States, and 145 million Americans bought only \$1 billion worth of Canadian goods. This works out that every individual Canadian on the average purchased about \$160 worth of U.S. goods, while every American bought a little less than \$7 worth of Canadian goods. We certainly do not want to make the two figures equal or nearly equal, for that could only be achieved by a most extreme form of economic nationalism which would gravely lower the Canadian standard of living. But we should like them not to be quite so far apart. If that figure of about \$7 a head for U.S. purchases from Canada could be raised to \$10 or \$11 it would make all the difference in our position.

Now Canada cannot just expand her sales in the United States by wishing to do so. It needs action in this country as well as in Canada. Furthermore, we do not want merely to use up more quickly our expendable natural resources and ship them across the border as untreated raw materials. The greatest hope of getting a better balance would be by expanding the production of some staple things that are needed in the United States, and by manufacturing them, or a part of them, to a further degree of readiness for their ultimate use than is now the case.

For example it seems rather strange to me that about four-fifths of the vast quantities of newsprint used in this country come from Canada, and come manufactured in rolls ready to be put in the presses, while huge quantities of the paper that is used in magazines and so on are manufactured in the United States from wood pulp and pulpwood imported in that form from Canada. If it is a sensible and economical thing to buy finished newsprint in Canada why is it not also a sensible and economical thing to buy other forms of paper there? But the tariff prevents the importation of these higher grades of paper, and the duty would have to be cut before the manufacturer of them in Canada could sell in this market.

We hope, then, that more Canadian exports will come this way, and that these exports will in some cases enter in a more valuable, because a more fully processed, form. We hope, too, to sell in the United States some things which we have previously sold in the United Kingdom and other markets. We also hope that the manufacturing industries of the two countries, already

closely tied together by the establishment of a great number of branch plants of U.S. concerns in Canada and some branch plants of Canadian concerns in the United States, may adjust their operations, especially by the production in the branch plants in Canada of goods, or parts of goods, for sale in the United States and other dollar markets; this would involve a change in the manufacturing and marketing policies of many of the parent companies.

A good many people in Canada and some people in the United States have begun to think of North America as an economic whole - a fairly new conception. Canadians do not normally regard Americans as foreigners or aliens, and they do not like to be themselves so regarded in the United States. Hence, they tend to feel a little resentful when their interests and needs are not taken particularly into account in Washington. For example, a measure is now under discussion there which would forbid the export of petroleum products to all countries. Canadians are inclined to ask whether a very old Canadian is not just as uncomfortable as a very old American. Have we not, they say, already bought from the United States a great deal of the oil that we must have? Are we to be faced now with a real disaster by a refusal of access to our main source of supply? Cannot we continue to divide scarce necessities between the two countries on the basis of share-and-share-alike, as we did in wartime, provided that oil is not being wasted in Canada, a fact which can, we are sure, be established? I trust that sympathetic answers will be given to queries such as these.

In wartime we did share under the Hyde Park Agreement, the things needed to keep the production of both countries at the highest level. It worked, and made no small contribution to victory. If this close integration of the economies was good in war - good for both countries and good for our allies - why should we not with profit continue the same principle through this period of what I hesitate yet to call peace, and indeed indefinitely?

There have, in truth, been great changes in the national outlook of Canada towards the United States in the last twenty-five or thirty years. While many of these changes can be ascribed to the impersonal movement of events, we must not underrate the high importance of the personal contributions of individuals in each country. It would be unseemly if I were to end my remarks tonight without some reference to the personal contribution of the Prime Minister of Canada, Mr. Mackenzie King, especially since he announced last week his intention of retiring from the leadership within a few months. He is now in his thirtieth year as leader of the Liberal Party, and for over twenty of the years which have passed since his selection to that position in 1919 he has been Prime Minister. He has seen the fulfilment of many of his early aims. I believe that he would agree that in no field has his harvest been greater than in that in which he devoted his talents to the cultivation of fruitful relations with the government and the people of the United States.

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