

STATEMENTS AND SPEECHES



INFORMATION DIVISION

DEPARTMENT OF EXTERNAL AFFAIRS

OTTAWA - CANADA

No. 48/27

CANADA AND THE EUROPEAN RECOVERY PROGRAMME

An address by Right Hon. C. D. Howe, Minister of Trade and Commerce, to the Montreal Rotary Club, May 11, 1948.

As a former active Rotarian and a present honorary member of the Port Arthur Rotary Club, I consider it a privilege to attend a meeting of the Rotary Club of Montreal as your speaker. I know from experience that, as business men, you expect a speaker to give you something of interest to business men, and I am patterning my remarks accordingly.

About one year ago, I spoke to a group of Montreal service clubs and attempted to analyse the business situation as it then appeared. I recall having said that the then situation warranted a course of cautious optimism. It seems to me that business prospects now warrant a continuation of that cautious optimism. However, two new elements have entered into the situation within the past year which have had and will have repercussions on the situation, and it is these two elements that I propose to discuss today: one, the dollar shortage, and the other, the European Recovery Programme. Both are bound to have an important influence on the business life of Montreal and of Quebec Province.

The great industries of the Province of Quebec, which are based on your vast resources of hydro-electric power, are Canada's most consistent earners of United States dollars. This province produces one half of our pulp and paper, all of our aluminum ingots, all of our asbestos, over one-fifth of our copper and substantial quantities of precious metals. All these products find ready markets in dollar areas. Exports of pulp and paper from all Canada formed nearly one half of the merchandise sales to the United States in 1947. With 65 million dollars planned to be invested in your forest industries this year, and a continuing high rate of investment in mineral production, with the re-opening of the Shawinigan Aluminum plant, an even higher proportion of United States dollars should be earned by Quebec in 1948. Quebec is also a mecca for tourists, again an important source of dollar income. All together, Quebec earns about 40% of our United States dollar income. Therefore, you have a special interest in Canada's dollar shortage situation.

During the past year, Montreal Harbour has handled over one-third of Canada's total cargo, an increase of ten percent over 1946. It is obvious that the prosperity of your City depends on the maintenance of a high level of export, especially to the traditional markets in the United Kingdom and Western Europe, as well as on a substantial return flow of trade.

It is now nearly a year ago since Secretary of State Marshall made his historic proposal at Harvard Commencement, of the European Recovery Programme, which has resulted in the United States Congress passing the "Economic Cooperation Act of 1948", on April 3 last.

The significance of the Economic Cooperation Act, the magnitude of the tasks involved, and the scope of its objectives can only be fully

appreciated in relation to the importance of Western Europe in the world trading system and the factors which have necessitated foreign aid for its rehabilitation.

Before the war, the United Kingdom and Western Continental Europe together formed by far the most important trading area - handling almost half of the world's total trade and operating as a main-spring of the whole delicate mechanism of multilateral payments. The United Kingdom and Germany played particularly important roles in this economic scheme. The former, as the single greatest trading nation, was the centre of a complex network of financial and trading relations and was a heavy net importer from the Continent as well as from countries like Canada. The Continental countries normally used the surpluses from sales to Britain to cover their dollar deficits. British coal exports to the Continent played an integral part of the Western European heavy industrial economy. On the Continent itself, Germany formed what might be called the heavy industrial backbone of Western Europe, with its vast coal and steel production and exports of machinery and highly manufactured goods, and providing in return markets for many of the products of other Western European countries.

The war upset Europe's economy and the basic structure of world trade. The obvious devastation in Europe was enormous and in many sectors industrial production was brought almost to a standstill. There was also a less obvious, but equally great devastation in the form of deterioration of capital and manpower, deterioration of agricultural equipment and soil fertility, over-cutting of forests, and such economic dislocations as monetary disorders, the upset of trade relationships, the concentration on war industries, the displacement of labour and the exhaustion of stocks. Widespread inflation was a natural result of the vast war outlays, the acute shortage of capital and consumer goods and huge requirements for reconstruction.

It was inevitable that the whole trade mechanism of which Europe was the centre should not have been re-established. Although by the middle of 1947, the total volume of world trade was almost as large as in 1938, Europe's share was only half of what it had been before the war and the area had changed from a large creditor into a heavy debtor.

Instead of supplying itself with most of its basic foods, with its fuel and iron and steel manufactures, Europe has had to seek large quantities of such commodities from the Western Hemisphere. But, while the demand for goods from the Western Hemisphere expanded enormously, rising prices in the United States increased the cost and it became more and more difficult for Europe to find the means of payment.

The enormous trade gap which developed as a result of European conditions was covered temporarily by UNRRA aid by loans and credits mainly from the United States and Canada, and by drawing on accumulated reserves of gold, dollars and other assets. The aid which the European countries had received was consumed much more rapidly than had been originally anticipated, both because of the extent of emergency requirements and the rising prices in the United States.

It was apparent by the early summer of 1947 that extraordinary measures would be needed if Europe was to recover and play an important role in the world economy. It was in these circumstances that United States Secretary of State Marshall proposed that if the European countries would draw up a plan for self-help and economic coordination, the United States would consider what assistance it might be able to offer. Sixteen nations under British and French initiative set to work in Paris on July 12 to comply with the suggestion of the United States Secretary of State and established a Committee of European Economic Cooperation.

The General report of this Committee was presented to Mr. Marshall on September 22, 1947. It consisted of both an appeal and a programme - an appeal to the United States and the Western Hemisphere to help Europe to reconstruct and reorganize its economy, and a programme of common effort for the European countries.

Since the General Report was presented, the United States Congress and Administration have examined in great detail the European proposals and the capacity of the United States to meet them. As a result, there was some modification of the European estimates and it was decided that it would be best to approach the question of United States contributions to European recovery on an annual basis. The Economic Cooperation Act of 1948, therefore, provides \$5.3 billion for the first twelve months of the recovery programme. A considerable proportion of the funds allocated will be devoted to purchases in Canada and other Western Hemisphere countries to enable them to supply goods urgently needed by Europe, but which are not available in the United States.

A consideration of the background to the Economic Cooperation Act should make it abundantly clear that the object of the whole programme is the reconstruction and rehabilitation of Western Europe so that it may again become self-supporting and once more occupy a key position in the world trading structure. It follows, therefore, that the goods which are sent to Europe under E.C.A. must be confined to those categories which will make the maximum contribution to European recovery. Let no one assume that Europe will be a dumping ground for any less essential surpluses which develop. It is surely obvious that an outlay on such commodities would be quite contrary to the whole spirit and purpose of the Economic Cooperation Act. If we did not confine ourselves to absolute essentials, not only would the recovery of Europe be delayed, but Canada would be failing in her responsibilities.

The fundamental necessity of the European countries doing everything possible to help themselves must inevitably involve various readjustments in the patterns of trade. The Western European countries have, for example, pledged themselves to expand intra-European trade by the reduction of tariffs and other obstacles to international commerce, to stabilize their individual economies, and to promote the production of those commodities which are most conducive to their rehabilitation and future prosperity. In such circumstances, it is possible that some of the traditional markets for certain of our basic commodities may suffer, and we must, therefore, be prepared to make readjustments. This will call for the understanding and cooperation of responsible men in business, labour and in government.

Let us be clear. European recovery will involve sacrifices. We, as individuals, will be called upon to give up some of the goods which we might otherwise have enjoyed. We, as producers, must be prepared to adjust our patterns of output to meet the exigencies of a rapidly changing world.

Many people in this country are, perhaps, not quite clear as to the actual significance of the new Economic Cooperation Act for Canada's exports and dollar exchange position. As a first step in removing popular misconceptions let us look for a moment at the actual nature of our problem. The dominant feature of our payments picture in 1947 was that although we were a net exporter to the world as a whole, we, nevertheless, were forced to withdraw about three quarters of a billion United States dollars from our reserves. This is largely explained by the fact that, whereas we obtained nearly 80 percent of our merchandise imports from the United States, we sent only 40 percent of our exports to that destination. On the other hand, to the United Kingdom and other

European countries, whose dollar loans were nearing exhaustion, we exported about 40 percent while importing less than 10 percent. In view of the fact that European countries could supply only limited quantities of convertible currencies to cover their deficits, it is clear that our high level of exports was only possible as a result of the extension of credits and the consequent exhaustion of our dollar reserves. Now that we cannot fall back on such reserves and the United Kingdom and other European countries are still not in a position to transfer sufficient gold or dollars to our account to pay for all they need, the problem is to find a working arrangement that will make possible continued shipments of construction goods where they are most urgently required.

I have seen some reports to the effect that E.R.P. would actually increase our exports by adding several hundred million dollars to the value of our current flow. This is far from the truth. What I have emphasized already about our trading and payments position should make it abundantly clear that last year's exports were supported by credits which we can no longer provide. Therefore, were it not for E.R.P. off-shore purchases our exports would have declined inevitably. Now we may hope - not that shipments will be greatly increased - but that they will be maintained at least at the level of 1947.

Another and related misconception, which is all too prevalent throughout the country at the present time, is that E.R.P. will automatically solve our United States dollar problem. This is not the case. Let us look for a moment at the most relevant facts. Since the war, we have been able to cover our net deficit with the United States by drawings on our accumulated reserves and by transfers of United States dollars from the United Kingdom. Expenditures by the United States under the Economic Cooperation Act for goods and services from Canada will simply enable us to continue export shipments without having the indirect effect of further depleting our supplies of United States dollars. But it is not enough for us to stop the drain on our reserves. We must build them up since they are now abnormally low. Were we to relax our controls on capital and consumer goods at this stage, imports from the United States would almost certainly rise sharply in view of our current income levels and consumption habits. We would again face an exchange crisis. Consequently, we have to continue with import restrictions until our economic position and that of our European customers improves.

The European Recovery Programme means, I repeat, that we in Canada will be enabled to continue supplying Britain and Western Europe with the food, raw materials, and manufactured goods so essential to the basic reconstruction of the production and trade of these important areas. This will of course contribute to the maintenance of a high level of employment and income in many parts of this country.

Had there been no United States provision of aid to Europe, we in Canada would have been compelled to curtail our exports to that area, involving sacrifices and painful adjustments in large sections of this country. Imports from the United States would have had to be controlled much more stringently than at present, and, as a necessary part of such restrictions, the levels of investment could not have been allowed to approach anything like the current boom position. In short, we will be enabled through the funds under the Economic Cooperation Act to carry on our exports trade in roughly the same volume and nature as before - avoiding a radical reorientation of our productive system - and to maintain higher levels of investment and income than would otherwise be possible.

Let us consider for a few moments the long-term implications of European recovery. If all goes well, both economically and politically, we may assume that within a few years Western Europe will be able, not only to absorb goods, but to pay for them. It will still

offer a large market for many of the products of our farms, our forests, and our mines. The heavily populated and highly industrialized areas of Western Europe will indeed always require vast imports of food and raw materials. It can reasonably be expected, of course, that various adjustments may have to be made from time to time in the nature of certain of our exports. We must never minimize the significance of Europe both in the short-run under European Recovery Programme support, and in the long-run on a healthy economic basis, as a fundamental factor in the maintenance of the high level of exports upon which our employment and income so closely depend.

Last year, we contributed to European recovery in what might be regarded from our viewpoint as accumulated United States dollars. This is evident from the fact that our reserves were depleted by no less than \$750 million in the first ten months of 1947. This year, our contribution will be in the form of goods, in our attempt to ship more abroad than we bring in. Such a contribution will be of assistance not only to Europe but also to the United States. It will help Europe in its rehabilitation, and the United States in easing the demand for a large number of products and thereby reducing inflationary pressures.

We can create an export surplus only by consuming less than we produce. Export restrictions, together with additional sales tax, are helping us to cut down domestic consumption and obtain the export surplus which we need to build up our reserves of United States dollars. The sooner we improve our foreign exchange position, the sooner will we be able to relax and perhaps abolish the import controls, and reduce the sales taxes, which are now holding down the levels of domestic consumption.

Our present economic problems are not only the concern of the consumers, but also of the producers. The European Recovery Programme and the measures which will have to be taken by the United States and ourselves in connection with it will aid production and exports of many Canadian industries. It will, however, not help suppliers of some goods and services. One of the basic principles of E.R.P. is that the European countries should, where possible, help one another, or purchase from other soft currency areas, rather than call upon the Western Hemisphere for support during the period of reconstruction. There is also the principle laid down in the Economic Cooperation Act to the effect that fifty percent of the goods leaving the United States under the programme must be carried in American bottoms. This principle, coupled with the existence of a large tonnage of available shipping in the hands of the European countries, will inevitably create difficulties for our own shipping interests. It may also be the case, that the European countries in establishing a rigid system of priorities, may not place some types of meat and fish high on the list of imports. Other markets may therefore have to be sought for such products. The same thing may apply to various types of manufactured goods of a specialized type. Great efforts cannot be made without sacrifices and adjustments.

I believe that I am expressing the considered view of the vast majority of the Canadian people, when I state that the sacrifices entailed in the restriction of our consumption levels and in the readjustments required of some Canadian producers are justified if they contribute to the rehabilitation of Western Europe and the strengthening of democracy in the world. A healthy European economy, as I have already stressed, would mean a continuing and paying market for many of our traditional exports. It would also mean increased imports from that area and a reduced dependence on any one source of supply. The old multilateral system of trading - so advantageous to

Canada in the past - whereby we covered our American deficit with our European surplus, can only operate if Western Europe, the pivot in the world trading system, can play its former role. It is surely obvious too, that the lowering of trade barriers and the effective expansion of international trade, as envisaged at Geneva last summer and more recently at Havana, can only be realized if Europe is in a position to improve its living standards and increase both exports and imports. The convertibility of exchange, without which effective multilateral trading is clearly impossible, cannot be achieved if Europe lives only by outside support. In short, a growing and freer international trade, upon which we in Canada depend more than most countries, presupposes a rehabilitated Western Europe, and we must, consequently, make every effort to promote that rehabilitation.

In doing so, we are not only demonstrating good business sense, but we are also showing our awareness of the international importance of our action. Democracies which want to maintain their self-respect and play their part in the community of nations, have to live up to their responsibilities, even if it means self-denial and inconveniences for a temporary period.

In closing, let me emphasize again the enormous stake which Montreal has in the success of the European Recovery Programme. It is a striking fact that last year nearly four-fifths of the export cargo loaded in this port was destined for points in the British Isles and Continental Europe. Good business prospects loom ahead for the Province of Quebec and for Montreal in particular, as we may expect that as a result of the Economic Cooperation Act exports will remain, for some time to come, at the present high levels. We may reasonably hope that when Europe has recovered and no longer requires outside assistance, Montreal will continue to be the focal point of an expanding European trade.

In their own personal interests, I would, therefore call upon Montreal business men to realize their opportunities and to show their initiative and resourcefulness in dealing with the many problems which are bound to arise in the next few years.

I am optimistic in that I believe that, with the cooperation and understanding of responsible men in business, labour and government in the Western Democracies, E.R.P. will be a milestone towards improved economic conditions and better understanding among the nations of the world.