

REMARKS TO TICKER CLUB TORONTO, OCTOBER 28th, 1948

1. My understanding of proceedings.
2. Commence with a few statements re Canada's foreign trade - known to all - but worth reminder.

(a) It is important to our economy in maintenance of employment and business prosperity. 1937, one billion dollars; 1948, nearly treble in value, an increase of over 50% in volume. Value of foreign trade was approximately 21% of GNP 1947, compared with 19.2% 1937. In other words in spite of tremendous domestic development foreign trade still as important as 10 years ago.

(b) Direction. The famous triangle. Heavy imports from U.S. Surplus with U.K. and Western Europe needed to pay for our excess of imports from U.S. This triangular pattern maintained and even exaggerated as compared with pre-war.

Imports U.S.	1937	-	61%
"	"	1947	- 77%
U.K. Sterling area, etc.	1937	-	33%
"	"	1947	- 16%
Exports U.S.	1937	-	37%
"	"	1947	- 38%
U.K. etc.,	1937	-	54%
"	"	1947	- 48%

1948 shows some improvement.

Exports to U.S. first 9 months -
48% up from 38%

Exports to U.S. etc. " "
41% down from 48%

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3. Underlying basis of triangle. On the side of imports from U.S., proximity, advertising, service, character of U.S. supplies such as coal, cotton. On export side past difficulties in the way of shipping farm products to U.S. on large scale. Markets for these abroad.

4. Financing. Although pre-war triangular pattern of trade has been maintained pre-war pattern of financing broke down early in war and shows no sign yet of being reconstituted. The U.S. £ area and Western Europe cannot earn enough U.S. dollars in their normal trade and other international transactions to pay Canada cash - what cash they have paid us in post-war period has been made possible by -

- (a) U.S. loans,
- (b) Using up of gold and dollar reserves
- (c) ERP.

5. What is situation after ERP? Even under worst conditions U.K. £ area and Europe are likely to have some surplus of purchases from Canada. Their needs and our competitive position likely to be such they will make some net cash purchases here. Question is whether scale will be large enough to be consistent with high employment and income in Canada and to provide enough cash to permit Canada to import freely from U.S.

6. Attempt to answer this \$64 question can be usefully broken down into three parts:

- (a) How far will U.K. £ area and Western Europe be able to improve its productive and competitive position?

Any increase in their exports to Canada on a competitive basis will whittle down our surplus with them and our deficit with U.S.

Any increase in their exports to other dollar markets will provide financial basis for triangular trade on a greater scale.

Recovery of U.K. (including £ area) and Western Europe will depend on future scale of ERP, and on extent of defence burdens they may have to bear, as well as on their own efforts.

Even on last point no final appraisal can be made now. Examination of recent U.K. White Papers and sources such as report made by ECE last March reveal encouraging signs of progress but also emphasize how far these countries have still to travel before their economies become "viable".

U.K. and European trade policies may throw some light on future. Difficult to decide how far these are dictated by immediate necessities and how far they indicate desire for shelter from the rigours of trade with competitive dollar world through forming closer association with present soft currency countries. Lengths to which U.K. has gone to maintain and develop £ area are certainly cause for disquiet.

- (1) Import restrictions discriminate in favour of £ area. Long-term arrangements made for expansion and utilization of high cost production in £ area.
- (2) Exports to £ area are favoured. Pre-emptive buying in colonies.
- (3) Capital can move freely to £ area but not to other countries.
- (4) Sterling balances released at very heavy cost to U.K. in terms of direct dollar loss or unrequited exports.
- (5) ERP and U.S. Administration attitude.

7. How will developments in U.S. affect dollar problem? U.S. has had more or less substantial surplus in its current account balance of payments for last thirty years. But this has always got financed somehow - sometimes however at a painfully low level of trade. If emergency is great enough, ERP may not end in 1952, or U.S. military expenditures may play a part. Their situation is more tranquil. U.S. foreign investment, particularly direct investment, may help. But unwise to depend too heavily on either one of these developments. More encouraging certainly over a term of years is the possibility of increase in U.S. imports; and one can also hope, again over term of years, for a change in the general economic situation of the United States to be recognized by Congress in the form of unilateral reductions in U.S. tariff.

8. Canadian situation. I have referred to various hopeful possibilities in the U.S. situation. One can also see some hopeful possibilities on the Canadian side.

(1) Even before removal of Canadian restrictions on farm exports to U.S. there had been appreciable change in the direction of our exports. Full effect of these measures, and of recent U.S. tariff reductions will not be apparent for some time yet.

(2) Our import restrictions of the past year have brought to light number of cases where Canadian producers and particularly branch plants have found new possibilities of servicing the domestic or dollar export markets on a competitive basis.

(Bendix, Burroughs, etc.)

(3) Alberta oil and Labrador iron ore and titanium discoveries could help considerably to reduce our deficit with U.S.

9. Having mentioned a number of things which may help, I have to add that it would be foolish to deny that our position is a very vulnerable one. As a great exporter of primary products, we have always been vulnerable - but the degree of vulnerability has unquestionably been increased over the last ten years by the losses suffered by a number of our important customers. A very considerable area of the trading world has been forced to apply discriminatory restrictions against Canada. Our useful trade in a great variety of highly manufactured goods is being steadily cut down, forcing us back to almost complete dependence on a more limited number of things. Moreover, a great many of our customers move in unison, as in the sterling area for example where developments adversely affecting the United Kingdom will very shortly be reflected in the trade policy of the whole area - if they continue to operate as they do now. We badly need to have further increases in our exports to the United States. We badly need more diversification in our exports to the United States, but this in considerable part at least is dependent on their tariff policy. In the final analysis, results will depend not only on tariff policy but also on the energy and resource which our producers and merchandisers show in tapping the richest but most exacting market in the world.

10. Finally, as a form of anti-climax, I have to add that my remarks have not given heavy weight to the situation which may develop if rearmament assumes formidable proportions in North America, and in

lesser extent in certain other parts of the world. If such developments do take place on a considerable scale, and last for a period of years, it would be idle to attempt a prediction of the pattern of our trade when the period of preparation ended either in war or real peace.