

# Public Affairs

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## Canada's Trade Policy

*The Rt. Hon. C. D. Howe*

When the Director of the Institute of Public Affairs informed me of the intention to devote an early issue of the quarterly, *PUBLIC AFFAIRS*, to a series of articles on Canada's trade problems, I gladly accepted his invitation to contribute an introductory article. In doing so I had partly in mind the value of the service that is being rendered by *PUBLIC AFFAIRS* in furnishing a medium for the discussion of questions of broad Canadian interest, and partly the very timely character of this topic. I know of no economic subject of greater current interest to all parts of Canada.

My purpose is to offer something in the nature of foreground and perspective, rather than to give a detailed view of Canada's trade position or of the different phases of our commercial policy.

**T**HE opening of the year 1950 has recently been seized upon as the occasion for numerous attempts to appraise the significance of the mid-century mark. Many of these appraisals have taken a common approach and have wound up at the same stopping place. How far have we come during the first half of this 20th century, and what are our prospects at the outset of the second half? The optimism of the early 1900's met its first great setback in World War I.

It enjoyed a short but seemingly strong revival in the boom period of the 20's. Then came the 1930's, bringing with them the bitter years of the great depression, during which a system of relatively free world trade gave way widely to policies of national self-sufficiency. Finally, the 1940's witnessed the most destructive war in history, with its aftermath of disruption in the life of most of the countries in the civilized world. The record of the first half of the century had

been one of magnificent advance in many directions, offset to a tragic degree by retreat in others. The second half was commencing in a setting that made it difficult, indeed, to strike a true balance between the gains and the losses. This was the prevailing tone of many of the appraisals—probably inspired more, and rightly so, by the global record and outlook than by considerations confined too closely to Canada's own place in the march of events.

For Canada the middle of the 20th century is neither a beginning nor an end. We are still in the stage of vigorous, expansive national development. Whether we look at it in the light of the fifty-year record or in that of just the more recent years, Canada's economic growth has been truly impressive. Our range of primary industry is still being steadily extended. Our secondary industrial structure is better balanced and more diversified to-day than ever. Increased plant capacity is becoming available every month on a large scale and further plans for expansion are in hand.

The welfare of our population is keeping fully abreast of industrial progress. Here is the most concrete evidence of the superiority of our institutions over those of the totalitarian countries. Agricultural and labour income are to-day three times what they were ten years ago. Labour and management have acquired new skills and better relationships. Social security and price legislation provide better protection for those in need than they did ten years ago. Much of the overhead debt that sharpened the difficulties of the 1930's has been liquidated, and this is notably true of our farmers.

We are a small country that has undertaken great things and accomplished them. Canada entered the post-war world as the third largest trading nation and yet our population is only thirteen million in total. In the past ten years our foreign trade has nearly quadrupled in value and it has doubled in volume. These are gratifying facts—evidence of the strength and vigour of Canada's economic growth—but they are not facts that are to be looked upon only in that light. They

lose a large part of their significance if we fail to appreciate how greatly they have magnified the importance of Canada's trade relationships with other countries and the importance also of the policies by which we seek to improve those relationships.

## II

**I**N these times there is nothing static about the problems in trade relationships which Canadian commercial policy, in one phase or another, must meet—nothing static except the basic fact that our prosperity depends at all times upon our ability to sell in world markets. Our ability to sell is partly a matter of our own capacity to compete, partly a question of how much and what kinds of products our customers can afford to buy from us. On the first score we are well placed. Canada's exports, by and large, can meet both quality and price competition, and they consist in great measure of commodities that fall within the category of essentials—food products and materials for industry. On the second score, the situation is not so favourable. The financial difficulties of some of our best customers have resulted in a shortage of dollars with which to pay for our products and, for us, the results of that shortage are twofold. It reacts upon the value and volume of our export sales in many quarters, and we, in consequence, have a problem in finding dollars to pay for our imports. The solution of the problems of our customers thus becomes a matter of vital importance to our own welfare.

The financial problems faced by the United Kingdom, the sterling area and the countries of Western Europe are rooted in changes that were taking place in the world economy before the war, but which have been disastrously speeded up by the events of the past decade, and made infinitely more difficult to deal with. Through the impact of the war these countries lost some of their most important sources of dollar earnings. Prior to the war, in addition to their income from direct exports to dollar markets, they

obtained very large dollar revenues from the exports from their colonial areas, from their shipping services and from their investments abroad. To-day their income from such sources has been greatly reduced. Since the war, Western Europe has obtained a large volume of goods from Canada and the United States, but these have been financed to a considerable extent by gifts and loans. For the future, the viability of those countries depends greatly upon bringing their trade with North America more closely into bilateral balance. Their dollar purchases must be paid for, to an increasing extent, out of the proceeds of their direct sales to customers who pay in dollars.

Canada's stake in the successful making of these adjustments is immeasurable. We recognize and accept fully our responsibilities as an importer. In world trade it is necessary to buy in order to sell. Under present conditions of inconvertible currencies and disrupted international finance, this statement takes on a new urgency and importance. If the United Kingdom and other countries overseas are to continue to be customers for Canadian produce in the future of the same order as they have been in the past, it is imperative that they build up dollar markets for their goods far in excess of the traditional volume of their sales here.

It is in our own interest to obtain increased imports from those countries which would buy more of our goods if they had the dollars. Canada's over-all external trade has been in very good balance in recent years, and our expenditure upon imports of all kinds has been about equal to our sales abroad. In the present world this is not enough to guarantee the stability of our position. What we need is a redirection of our external trade to achieve better balances with particular countries or areas. Our current trade policy seeks to sell more to the United States and other dollar markets to offset, and, if possible, to do more than offset any shrinkages of markets elsewhere, and to strengthen our capacity to pay for the large volume of imports we must obtain from the United States. It seeks also to buy more from the sterling area and from European coun-

tries in order that they in turn can continue to buy from us. In these phases of our policy no over-all increase of imports is necessarily involved. What is involved is a diversion from dollar sources to sterling and other soft-currency sources of purchases which would in any case be made abroad.

### III

THE bilateral balance of trade and of current payments between Canada and the sterling area is greatly improved to-day in comparison with two or three years ago. Much success has been achieved in promoting the sale of United Kingdom goods in this market. United Kingdom exporters have been energetically pursuing the opportunities offered to them by the devaluation of the pound sterling last fall. Canadian imports from the sterling area as a whole have increased from \$346 millions in 1947 to something in excess of \$500 millions in 1949. Further increases are anticipated in 1950. It is significant that the imports purchased by 13 million people in Canada from the United Kingdom are greater than the British purchases made by the 150 million people in the United States. Expressed in another way, on a per capita basis in 1949 we bought goods from the United Kingdom at the rate of \$24 for every man, woman and child in Canada. The comparable figure for the United States is about \$1.40 per capita. The difference between these figures is one reflection of a marked contrast between the economies of the United States and Canada—especially in the degree of their respective direct participation in international trade. It is a contrast that holds good with regard to exports as well as imports.

There has been a good deal of discussion of the efforts that are being made in the sterling area countries to reduce their purchases from Canada to the bare minimum. The prospects are that Canadian exports in 1950 will be reduced, but that, in total, our exports will not fall by a very large percentage below the record levels achieved in 1948 and 1949.

The underlying strength of the United States business situation is now providing important support to our own position. The continuation of activity and the revival of business confidence in that country provide possibilities of increased American demands for a number of commodities in 1950.

Canada welcomes the greatly increased attention that is now being directed in the United States toward changes in the administration of their customs tariff and in the levels of their tariffs. Just as the most serious financial problem throughout the world has been the shortage of United States dollars so will the solution of the problem be assisted by effective efforts in the United States to increase their level of imports. Canada has a direct interest in gaining access to the United States market for a wide range of manufactured products. From a broader point of view it would be to our benefit also to see countries overseas increase their dollar

earnings by expanded sales in the domestic markets of the United States.

Our broad policy in Canada is to pursue measures that will strengthen our position as a major trading nation, both as a buyer and as a seller—and to do so with the maximum emphasis on positive, expansive methods and the minimum reliance upon the restrictive. We must continue to bend every effort toward keeping the door wide open to the return to multilateral trading practices throughout the world. The incalculable importance of that objective to Canada has never been clearer than it is to-day. Our prosperity will be closely identified in the future, as in the past, with the state of world trade as a whole. In continuing to put into international trade, commercially, as much as we take out of it, we shall in the most effective way that is open to us be underwriting our own national commercial well-being and that of other trading communities in all quarters of the globe.

