munity is "down" and needs assistance It is an individualism which combines an apparently incongruous set of opposites: independence and shrewdness on the one hand, apparent docility (especially in matters of "teacher-authority") and distaste for "fanaticism" on the other.

I hope that the manifest inadequacy of these notes will stimulate some one (perhaps in protest against this very inadequacy) to undertake a systematic enquiry into the nature of Maritime "culture" and perhaps also into the nature of Maritime family life, whence many of these matters come.

Canada's Economic Interest in European Recovery

By E. P. Weeks

THE attention of the world is now focussed on the possibilities of European recovery. The trade agreements signed at Geneva, the I.T.O. Conference in Havana, the recently announced restrictions on Canadian imports and consumption, and the recall of the American Congress to consider the problems of Europe, together serve to underline the obvious fact that all parts of the world suffer when great trading areas are disabled and that satisfactory trade relations can only develop as rehabilitation of these areas proceeds. In view of Canada's outstanding position as a world trader, it may therefore, be opportune to examine some implications for this country arising from the course of events in Europe.

A certain confusion may arise as a result of the practice of including the United Kingdom with Europe in discussions on the "Marshall Plan". For the purposes of this article Western Europe is taken to mean those continental countries outside the Russian sphere of influence, while the United Kingdom is generally treated separately except in direct connection with the European Recovery Program.

The Pre-War Position

It may not always be realized that before the war Western Europe and the United Kingdom together accounted for roughly 45 per cent of world trade, while Western Europe itself was the greatest single trading area. This predominance was due primarily to the existence of the bases for heavy industry, combined with deficiencies in certain raw materials and food supplies.

The backbone of Western Europe's economic strength lay in one of the great heavy industrial regions of the world —comprising the Ruhr, Aachen, and Saar in Germany, eastern Holland and Belgium, Luxembourg, Lorraine and Northern France, with industrial extensions on all sides. The region as a whole produced some 230 million tons of coal and over 30 million tons of steel in 1939. The particular significance of the German sector is illustrated by the fact that it supplied over 60 per cent of the total output of coal, most of the coking coal, and two-thirds of the steel.

Past investments in the growth of tropical areas and the more recently developed countries, and large exports of services, enabled Western Europe to be a considerable net importer of merchandise on balance, although there were net exports to the United Kingdom. For most of the main trading areas Western Europe was naturally a key factor—accounting for roughly a fifth of the trade of Britain and the United States, and for nearly a third of the Latin American total. Its significance for Canada before the war was more through its influence on the general level of world activity than as a direct market, since it absorbed only 6 per cent of our total exports.

The economy and trade of the United Kingdom had fundamentally the same foundations although more sharply defined as those apparent in Europe, i.e. heavy industry based on coal and the

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necessity for large imports of food and raw materials. Britain's position as a large net importer was, like Western Europe's partly a result of past investments. On its balance of payments in 1938, exports covered only about half (55 per cent) of the value of merchandise imports. The net debit balance was paid for by interest and dividends on capital invested abroad (one-half), and by shipping services, insurance commissions and other invisible exports together with a certain consumption of capital. As the world's largest customer, Britain was the main pillar in the whole system of multilateral trade, with Western Europe and the United States the other two basic supports. Over 20 per cent of Western Europe's exports in 1938 went to the United Kingdom and over 11 per cent of its imports were of British origin. The corresponding figures for the United States were 17 and 5, and for Latin America 20 and 13.

The rôle of Britain as a direct market for Canadian goods scarcely requires emphasis. Not only did it absorb some two-fifths of our exports, but since we sold much more there than we imported in return, a surplus was available to cover a large part of the regular deficit on trading account with the United States. Furthermore, the influence of the United Kingdom on the prosperity of other trading areas was nearly as great as that of Western Europe.

Changed Pattern of WorldTrade

The war has caused tremendous changes in the world production and trading picture—some changes of a permanent nature, others merely reflecting the acute present difficulties of Europe and the Far East. The total volume of world trade is running not far short of the 1938 level, but the pattern is vastly different. Of the three great pre-war trading centres—Western Europe, Britain and America—only America has come out of the period of hostilities with enhanced economic power, and it is now able to export over $2\frac{1}{2}$ times as much in volume as during the late thirties. The breakdown of the German economy and its effect on surrounding areas, the general economic disruption in Europe, and the practical exhaustion of the overseas holdings of both Western Europe and the United Kingdom have turned these great credit areas into debtors and left North America as practically the only large source of supplies and credit in the world. The present acute demand for dollars was an obvious consequence. This highly abnormal situation is complicated by the strained political relations between East and West which have created certain artificial barriers in Europe, and by the generally unsettled conditions in the Middle and Far East. The activities of the International Monetary Fund and the International Bank of Reconstruction and Development has so far been comparatively limited since they were designed on the assumption that the main trading areas would recover from war in relatively a short time. This miscalculation resulted from a wrong judgment of both the extent of the disruption and its causes—the radically altered position of the United Kingdom, the destruction in Germany, and the repercussions of political complications on the continent.

Dislocation of European Economy

A brief consideration of the current economic picture in Western Europe reveals the magnitude of the recovery problem. Three major factors stand out: the tremendous task of physical reconstruction, particularly in Western Germany; the failure of German coal production to reach more than three-fifths of the pre-war level at a time when Britain cannot export the 25 million tons it formerly sent annually to the continent; and the deficiency in food production resulting from war losses of equipment and livestock, exhaustion of the soil, shortages of fertilizer, and exceedingly unfavourable weather conditions. Financial instability and political strain are both results and causes of the difficulties of reconstruction.

It must be remembered, however, that the picture is far from uniform. Belgium, Denmark, the Netherlands, Norway, Sweden and Switzerland have brought their industrial production to over 85 per cent of the pre-war level, and in the case of Norway and Sweden well above. At the same time, prices have been kept fairly well in hand and there is general internal stability. This favourable situation has been partly due to the fact that, except for the Netherlands, these countries suffered relatively little direct war damage, and partly to the large and rapid net flow of goods from North America made possible by foreign assets and external aid. The picture in France and Italy, on the other hand, is characterized by acute domestic problems arising from inflation, poor crops, political uneasiness and an urgent need for dollars to pay for the food, coal and other products which must be imported quickly if the economies are to survive the coming winter. American stop-gap aid may cover the most vital requirements of the next few months. Western German industry is producing at only a little over a third of its former level. This situation is the cumulative result of food shortages, insufficient coal and raw materials, physical destruction, the splitting of the country, absence of consumers' goods to provide work incentives, extensive black markets and a widespread decline in morale. Austria's acute problems reveal what happens to a small trading nation highly dependent on trade when it is occupied by four powers with little coordination of economic policy.

The repercussions of the war on Western European trade are, of course, particularly apparent in the export field. Thus, the share of the whole area in the world total before the war—some 30 per cent—had dropped to half that proportion of a somewhat smaller total world volume in 1946. In the case of Germany the decline was particularly acute, from third trading nation in 1938 to relatively negligible exports at the present time. The large net import balances of all the Western European countries have been supported so far by outside assistance and foeign holdings, and without such help even the present state of recovery would have been impossible The difficulties already inherent in the overall trade position are accentuated for individual states by two additional factors — the inconvertibility of sterling and various European currencies into United States dollars, and the collapse of the German economy The economic chaos in Germany has, inter alia, forced some countries to buy from the United States what they formerly obtained from the Reich, while they cannot sell to America many of the commodities for which Germany was the obvious market The effects have been felt not only on their balance of payments, but also on their general economic welfare The trading position may also suffer from political and economic developments in Eastern Europe which appear to suggest that, in spite of a presently expanding trade, with the western part of the Continent the long-term trends may be in the other direction. This would increase Western Europe's dependence on overseas sources. Ultimately, the area as a whole will have to adjust to its new debtor position and become a net exporter instead of a net importer.

The change from a creditor to a debtor involves even more profound adjustment in Britain than in Western Europe. The decline of returns from overseas investments has been coupled with the accumulation of huge sterling debts. Temporary assistance to cover a level of imports still running at over 50 per cent above exports has been provided by American and Canadian loans. However, if essential imports are to be paid for and foreign commitments covered, exports must clearly be substantially higher than the pre-war volume, and Sir Stafford Cripps has set the target for 1948 at 40 per cent above the 1938 level. But this can only be achieved on the basis of further sacrifices by the British people, competitive prices, and an expansion of world trade as a whole. Britain's problems of international payments are still more acute than would appear superficially, since the flow of trade involves heavy net purchases from hard currency countries and net exports to various soft currency areas. In addition, the prices of the goods Britain buys have risen faster than those of the commodities it is currently selling. The delay in the recovery of the European economy and the rapid exhaustion of the United States loan, were two factors which, perhaps, were not adequately foreseen a couple of years ago. At any rate, Britain's recovery will be determined not only by internal measures, but also by the general expansion of world production and trade particularly in Europe.

Canada's Balance of Payments

It is against this background of difficulties in Western Europe and Britain that Canada's own problems, different but nevertheless related and acute, fall into perspective. The radically altered position of the two former areas has played havoc with the old pre-war multilateral system whereby Canada could cover its trade deficits with the United States by a surplus overseas. While that deficit has been reaching record proportions, Canada had made nearly $2 billion available in credits to Britain and Europe leading to heavy exports for which there is no immediate return in goods or currency. The credits have been, nevertheless, of great importance in the maintenance of employment levels in various parts of the country following the end of the war. Partly as a result of these loans, nearly 40 per cent of Canada's exports went to Britain and Western Europe during the first nine months of 1947, 27 per cent and 11 per cent respectively, or slightly more together than the total flow to the United States. No other part of the world even approached the above destinations —Latin America, for example, taking only about 5 per cent of total exports— and even the volume of sales to these smaller markets will be governed to a large extent by what happens in Britain and Europe. The basic issue for Canada thus becomes, in effect, how to maintain the level of exports so essential to the maintenance of high employment here, and at the same time acquire sufficient United States dollars to meet the trade deficits with that country now and in the future.

The importance of European developments for Canada is revealed even more sharply when the exports are broken down into groups of commodities, and allowance is made for the actual areas inside the country where these exports originate. Thus, Britain and Western Europe together are taking nearly all the wheat and nearly two-thirds of the flour. Britain is the principal market for meat, cheese and eggs. It also takes a third of the planks and boards and all the pit props. Western Europe and Britain absorb a third of the nickel, half the zinc and lead, two-thirds of the aluminum and four-fifths of the copper. Of miscellaneous products, Western Europe is taking two-thirds of the rubber products, most of the locomotives and a greater part of the ships. It is apparent that the prosperity of all the regions of Canada, from the Maritimes to British Columbia, are dependent on what happens in Europe. A decline in the exports of a particular item like apples might look small against the total volume of Canadian sales abroad, but it could have very awkward repercussions locally. Local and regional difficulties would, of course, be even more acute if several of the basic exports were affected at the same time.

Halifax, as a great Atlantic port, is particularly involved in European developments, not only through direct shipments there, but also by the level of British West Indian trade which partly depends on the position of Britain's international payments. Of the 970,000 tons of cargo loaded at Halifax during 1946, half was destined for the British Isles, and another sixth for Western Europe, i.e. two-thirds together. In addition, the British West Indies took nearly 10 per cent.

The Marshall Plan

The urgency behind Secretary Marshall's proposals and the report presented by the Committee of European Economic Cooperation can only be appreciated fully against the background not only of the present payments crisis caused by the large import demands combined with limited export possibilities in the near future, but also of Europe's role in the world economy before the war. Political and strategic factors have increased the urgency, and at the same time have complicated the issues and the problems involved.

The European (i.e. British and Western European) report[1] in response to these proposals represents a sort of 4-year Plan covering 1948-51 inclusive, and consists of both an appeal and a program —an appeal to the United States and the Western Hemisphere to help Europe reconstruct and recognize her economy, and a program of common effort for the European countries. The program itself is based on certain broad assumptions. These include: greatly increased production in European countries; availability of the imports from America required for this increase; an expanding volume of trade with Eastern Europe; sale of goods produced for export in the United States and the rest of the world; progressive reduction of prices of imports into Europe in relation to Europe's export prices; steady recovery in Asiatic countries; and an adequate flow of dollars to the rest of the world so that European countries could earn dollars both directly by their exports to the United States, and indirectly by their sales to other areas. There are, in addition to the above, two fundamental overall assumptions—good relations between East and West, and internal political stability. It may be questioned whether all these assumptions are fully justified. For instance, the flow of supplies from Eastern Europe will undoubtedly be governed by political as well as economic considerations. The new communist organization at Belgrade has committed itself to do anything in its power to ruin the prospects of the Marshall Plan succeeding, and it seems probable that it would try to create difficulties both through direct economic means and by increasing political unrest in various countries. The possibility of increased sales to the United States and of a generally adequate flow of dollars throughout the world depend, of course, upon the long-term import policy of the Americans, the maintenance of high employment levels, and the attitude to foreign investment. Insofar as the assumptions are not warranted, so much the greater must be the effort expended and the sacrifices endured to achieve the objectives laid down in the proposals.

The goals of the program are mutually interdependent and are clearely essential in the circumstances: a strong productive effort by each participating country; the creation of internal financial stability; the maximum economic cooperation between the participants; and a solution of the trading deficit with America, mainly by greater exports. The individual signatories have accepted obligations to achieve these goals in their own particular sphere, recognizing, of course, that there must be adjustments from time to time to meet altered conditions.

The statement of the import requirements and the problem of payment are based on the obvious fact that Europe, practically ruined by war, cannot achieve the goals established without assistance from outside, and the only part of the world which could provide that assistance is the Western Hemisphere. The extent of this dependence is partly the result of the disruption of other non-European sources of supply. The deficit with the Western Hemisphere for 1948-51 inclusive is expected to be \$22.44 billion—and it might be even more because conditions have further deteriorated since the Report was presented. It was hoped that the Inter-

(1) Committee of European Economic Co-operation, General Report London-Paris, 1947.

national Bank might finance $3.13 billion for capital goods, but this would necessarily, mean American funds. Of the remaining $19.31 billion, some $6 billion would be deficits with Canada and Latin America which would have to be financed by them or by the United States. The remainder would be financed by them or by the United States. The remainder would be entirely a United States responsibility.

The magnitude of the effort needed in both Europe and the Western Hemisphere before the European economy can be fully restored needs no further emphasis. The demands on the Americas would place a considerable strain on the United States and Canadian economies at a time when there are still insufficient goods to meet the public's unprecedented demand. However, the significance of Britain and Western Europe is so great for the peace and prosperity of the entire world that exceptional sacrifices are undoubtedly warranted.

Canada's direct contributions to European recovery would likely be in the form of the goods especially necessary for rehabilitation, such as foodstuffs, forest products and non-ferrous metals, as well as various items of capital equipment. It would have the particularly important role of supplementing the possible flow from the United States in the form of goods which that country would not be in a position to export in the necessary volume. Further support to Britain and Western Europe would be possible if we enabled more goods to be sent either by increasing our own production, or by consuming less, or by reducing our demands for American products which might then go overseas. as to the financing of such trade, Mr. Abbot has already indicated that a repetition of the $2 billion loans would be out of the question. However, any American aid to Europe would be bound to turn some United States dollars in Canada's direction even if the original advances were directly tied to United States produce, because the European countries could use part of current earnings of hard currencies to purchase goods other than those of American origin. If the United States set aside a definite proportion of the advances it might make to be spent in Canada, the payments situation would, of course, be easier.

The significance of Europe's recovery for Canada is apparent in many related fields. The principles of the International Trade Organization regarding non-discrimination and the reduction of trade barriers could only have value in practice if the main trading areas of the world are on a paying basis and are able to contribute to a higher general level of world prosperity. This point is underlined by the clause in the recent trade agreements to the effect that countries suffering from serious adverse balances may apply broad import restrictions regardless of any long-term commitments to lower trade barriers. It is clear, too, that regardless of tariff and other hindrances to normal trade the flow of goods depends ultimately upon the level of production in such areas as Britain and Europe. The success of the Marshall Plan, therefore, would appear to be the *sine qua non* for the long term revival of a healthy world trading system upon which the welfare of Canada so uniquely depends. Net exports to Europe could again pay for part of the net imports from the United States, although the margins would probably be somewhat different than those before the war with less dependence on imports from the United States and smaller net exports to Europe. Meanwhile, we are faced with import restrictions and uncertainly regarding the future of our trade. The period which must elapse before such restrictions can be lifted and before a solid basis can be laid for Canada's foreign commerce, will be governed mainly by the speed of European recovery during the next few years.