

Problem

# Wanted: economic realism

Warmed over answers no help  
with our economic problems.  
We require new approaches

by E. L. R. Williamson

At Loos, an early battle of World War I, the conduct of the Brigade of Guards was described in the words, "each man bore himself as at the trooping of the color", and at another early battle, German frontal charges left their dead on the field in geometric patterns. It was not until the flower of the armies on both sides had been lost, that the parade-ground tactics of the nineteenth century were put aside and the need for protective entrenchments for mass armies was realized.

When World War II broke out, the first military positions taken up were entrenchments, after the pattern of the first world war, and not until all but irretrievable disaster had befallen was it realized that another new military day had dawned and that old methods could no longer successfully cope with new weapons and new tactics.

A similar time-lag, a similar "fighting of the new war with the last war's weapons" is observable in our economic campaigns. When the great depression of the 1930's broke, the respectable remedies of the nineteenth century were applied—reduction of expenditure, general thrift and economy—until it was found, to the surprise of most of us, that the remedy only increased the malady. 'Pump-priming' and deficit financing became the accepted panaceas and neat formulae the weapons against depression. But in new recessions two score years later, deficiencies in the factors of the formulae have been revealed; the theoretical impossibility has occurred: the simultaneous appearance



of inflation and unemployment, in many countries of varying circumstances.

Not only in fighting depression, but also in our endeavors to progress, we have turned to the time-hallowed ritual of what was done the time before: after World War I we called for "a return to normalcy", without trying to discover whether what was 'normal' pre-war could be 'normal' post-war. In the twenties, it was "back to the gold standard", without trying to discover whether gold was or could be to the twentieth century's economy what it was to the nineteenth's. After World War II, it was "back to multi-lateral, non-discriminating trade", without information as to the terms on which such trade could be conducted.

In each case, the ideal has proved either completely unattainable or if attempted, the disastrous results have necessitated reversal at an early date. In short, for a generation we have been attempting to meet with emotional nostalgia problems calling for coldest logic.

### Again the cart is before the horse

Now, partly as a consequence of pressures applied by Canada at the Montreal Conference, a small step has been taken on the road to convertibility for Sterling and some European currencies, and there are indications that new facilities for international loans and credits to the countries concerned will be established.

It is not that the step in itself is of any great significance or that it will have any real effect unless it is accompanied by relaxation of import quotas by the countries granting increased convertibility. What must give us concern is the fact that the step is accompanied by no measures which can give reality and vitality to it: the cart has again been put before the horse; we have again witnessed our persistent inability to realize that international trade is not basically a matter of finance but is exactly what the name says: the exchange of the goods and services of one country for those of another. Unless the conditions for useful and mutually profitable exchange exist, no conceivable financial arrangements and facilities will move a single iron bar or log of wood.

### Must know trend—and work with it

We are trying to recreate the "multi-lateral, non-discriminatory" freedom of trade which Canada and all the western nations found so profitable in the nineteenth century. Do the basic conditions permit such a reinstatement or are we merely dooming ourselves to further years of frustration, disappointment, and delay of a sound and viable economic basis? Men have produced, bought, sold, made profits, and regarded themselves as happy and successful in many other centuries than the nineteenth, and under many other systems. The problem of top management is to know the trend and to work with it for success. The essential elements in the nineteenth century's economy must be recalled:

- A surplus of land available for occupancy
- A rich store of natural resources, easily and cheaply accessible
- General freedom of movement for labor, capital, and goods.

Under those conditions it was possible to have a 'market economy' regulated by a 'gold standard'. In this economy the necessary element of flexibility was provided by employment and production. With land free or very cheap, and resources easily and cheaply accessible, men were relatively self-sufficient and varied the kind and amount of their labor without at least unendurable hardship. Businesses, being small and largely individually owned, might fail without disaster to the community. Men and capital could move to another community or country where they could be more profitably employed.

### And note big changes in economic pattern

The first half of the twentieth century has witnessed essential changes in the three fundamental elements of the nineteenth's economic pattern: Basic is the fact that for the first time in 400 years the population/resources ratio in the countries of the west has fallen below that prevailing in Europe before the discovery of the New World. Virtually all usable land is occupied and gainful occupation overwhelmingly related to wage-paid employment. Self-sufficiency is attainable only by a very few.

Second, easily accessible resources have been exhausted, and resource development, as well as industrial production is dependent upon complex organizations with large capital resources and with which the welfare of the community as a whole is closely linked.

Third, in consequence of land scarcity and the increased need for capital accumulations, the free movement of people has virtually disappeared and capital movements from most countries are subject to restriction and continuing control.

### We're on the 'employment standard'

These profound changes in the basic economic conditions of our civilization have naturally been reflected in the economic structure: from a self-regulating market economy in which the balancing agent was the 'gold standard', the western world has turned to a series of managed economies revolving about an 'employment standard.' Maintenance of employment is the prime fact and necessity of all industrialized states: there is not a government, western or communist, but which is aware that its life is directly and immediately dependent upon its ability to maintain employment.

If demonstration within Canada be needed, one need only consider the unemployment issue in the last two general elections and the speed with which the new Government adopted large-scale deficit financing—directly contrary to their statements when in opposition. This is noted not in criticism, but to emphasize the power of the unemployment question to override all other considerations.

While the prime requirement under the new economic structure is clearly recognized, the flexible or adjusting element—previously supplied by employment—is not clearly recognized. Nonetheless, it is becoming evident that external trade more and more is being employed for that purpose. No better example is to be found than in America herself where it was

## Let's recognize the fundamental changes in our economic conditions and find new weapons to fight the current economic wars

deemed more advantageous to expend many thousands of millions of dollars in Marshall Aid and other forms of external largesse than to expose the American domestic economy to the foreign competition which would have permitted the recipient countries to pay their own way.

### Principles of GATT aren't realistic

There is a further test which, if not conclusive, is illuminating: if external trade is, in fact, being employed as the variable, or flexible, element in the new economic orientation, we should expect to find that attempts to impose "non-discrimination" would tend to fix trade to the minimum level which would be required to protect domestic employment, rather than a maximum from which it would be difficult to retreat in time of need. This is what has happened in actual practice. Precluded by the Geneva Trade Agreements and the General Agreement on Trade and Tariffs (GATT) from effecting mutually profitable bi-lateral trade arrangements which could have expanded the total volume of trade, country after country has had to contract and restrict trade because of imminent or apprehended co-lateral effects.

It is to be noted that although America was the author of GATT, the chief beneficiary, and as one of the world's two self-sufficient nations, able to erect a 'non-discriminatory' barrier against the products of every other nation, the American Government and Senate so greatly feared any curb upon their ability immediately to apply further restrictions that America has never ratified GATT. It has, in fact, taken measures which the Canadian Government has stated to be contrary to GATT. Again, the observation is made not in a spirit of criticism—for surely the American Government has a moral obligation to maintain their home employment before assisting to maintain foreign employment—but rather to demonstrate the unreality of what is proclaimed as official policy.

### Prevents bi-lateral agreements

As applied to Canada, the principles of GATT have paralyzed our ability to meet the situation imposed by the new economic basis. With every other basic economic factor of the free world—as outlined above—reversed, we have been trying to believe that the free movement of goods could be maintained. Because we have been bound to a blind "non-discrimination", we have been precluded from making the bi-lateral and group agreements which alone could pre-

serve our external markets and maintain domestic employment and income. We have incessantly, officially and privately, demanded or pleaded for 'convertibility of sterling' and an end to quotas and other restrictions upon Canadian exports. However, the basic commitments of GATT have precluded the only course which could make 'convertibility' a reality and enable the restrictions to be removed.

### Trade diversion aim has vanished

The Prime Minister, in the 1957 general election, called for a "diversion of 15 per cent of Canada's external purchases" from America to the Sterling Area. On this issue he received the endorsement of the electorate that year, and again, overwhelmingly, in 1958. The Prime Minister thus, at least at one time, clearly perceived the indispensable condition to freeing the trade channels to the markets which maintain the larger volume of employment in Canada, to assuring a genuine and stable convertibility, and continued access to those economies which are complementary to that of Canada.

The curious disappearance of the 'diversion' objective after the 1958 election naturally resulted in the complete sterility of the Montreal Conference. This was, so far as Canada is concerned, a complete failure—unless there was some secret agreement of which Parliament and the people have not been informed. If, as a financial publication recently reported an 'Ottawa official' as saying, the Conference led to the establishment of convertibility which is, we are asked to believe, "an irreversible step" which can "lead only to complete non-discrimination in trade", we are being treated to as fatuous a piece of economic nonsense as we have been asked to believe since the end of the war.

### The answers are in the Sterling Area

The aspect of all this which must concern the policy makers of Canadian business and industry is that they must prepare to find in the Sterling Area the markets they require for exportable secondary production. They must also prepare to seek in the Sterling Area new sources of supply for capital goods and other supplies now obtained in America. For contrary to the beliefs held in some quarters, economic independence is not an "uneconomic" necessity to political independence. In an "economic integration" with America, Canada could not sustain even her present population, urbanisation, and industrialisation.

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