

have completely developed the complementary economies which are desired.

With a strong internal economy, an increasing standard of living for the people, well organized industries for the production of armaments, and a

closely coordinated system of military defenses, there is no reason why the countries of the new world should not be able to go forward to greater heights of freedom, liberty, prosperity and democracy.

Economic Implications of United States-Canadian Defence Co-operation

By DENIS COURTNEY

THE Canadian-American defense agreements came, to the American public, at least, as a surprise. The attention of most Americans has been from the beginning directed to Latin America rather than Canada as the most likely loop-hole for foreign hostile influences. This was only natural considering the long story of fascist political and economic penetration in many Latin American countries both before and during the war. The realization that Canada, from its geographical position no less than from its importance in world trade, plays a vital role in hemisphere preparedness is of more recent growth. The first care was for the physical protection of the northern continent, and the agreements concluded for sharing the military responsibility for defending the lengthy coast-lines of the two countries have been the welcome result. The wider proposals for hemisphere solidarity in the economic field, now under discussion, are calculated to defend not only North, but South America as well, from the far more insidious threats of totalitarian economic aggression.

The damage already done in Latin America is grave; the potential danger is

graver. Here is a situation which demands immediate action. For the rest of the hemisphere the danger is less insistent, but potentially it is still there. No matter who wins the war, present tendencies point to a world split into great regional areas of economic control from which the British nations and the United States are likely to find themselves shut out. The only contrary possibility would be in case a victorious Britain were left with sufficient strength and initiative to organize and compel, perhaps with the aid of the United States, a return to freer conditions of international trade. In this event the task of reconstructing an impoverished and starving Europe would call for all the organizational machinery at the command of the British Commonwealth and the Western Hemisphere.

But in the event of Fascist preponderance in the European continent, the danger of unplanned and unprotected contact between the commerce of this hemisphere and the unscrupulous, monopolistic trading bodies in Europe and elsewhere would be very great. It is for this contingency that an organized trading bloc in the Western Hemisphere is advised, not to cut the Americas off completely from such bodies, but so as to control and supervise the channels of trade and avoid unscrupulous dealings at either end. An economic bloc in the Western Hemisphere thus would be the most useful machinery either for defense or reconstruction, and there is every

EDITOR'S NOTE: Denis Cartwright is on the staff of the National Economic and Social Planning Association—NESPA—with headquarters at 1721 Eye Street, Washington, N. W., D. C. The Association, to which the Editor is deeply indebted for their assistance in preparing this issue of PUBLIC AFFAIRS, has given special attention to the problems of economic co-operation between Canada and the United States. A preliminary report presented by one of NESPA's study groups is contained in the June issue of *Plan Age*, the Association's excellent monthly bulletin.

argument for constructing it as soon as possible, since it would be of use whichever way the war goes.

The Defense Agreements

The Canadian-American defense agreements have to date made provision only for the planning by a joint board of measures for the defense of the two coast-lines of the North American continent. Implications of economic collaboration can be argued only indirectly, therefore, from these agreements at their present stage.

Suggestions have been made that, in the event of an emergency, the armed forces of each nation would have immediate access to bases and other facilities in each other's territory, if the need arose. Supposing such a course were decided on before the actual outbreak of hostilities, it might well be that the United States would decide to take an active part in helping to prepare the strategic harbors and air-fields on the Atlantic and Pacific coasts of Canada to resist attack. Indirectly the construction and upkeep of such bases on Canadian soil would benefit Canada's present acute foreign exchange problem, though the extent of the benefit would depend upon the procedure. If labor and materials were shipped from the United States, the amount of foreign exchange Canada would stand to gain would be infinitesimal. If the construction materials and labor were obtained in Canada, presupposing Canada's capacity to furnish them, Canada's gain in U. S. dollars might be considerable. The factor of productive capacity is a vital one here, since only if the Canadian capacity were adequate could any question of economic policy enter in. Given this essential condition, there would be a strong case here for the framing of such a policy of co-operation by the United States.

The maintenance of these establishments would also provide a steady trickle of U. S. exchange, comparable in character to tourist receipts. In addition, the fact of the presence of these bases within easy reach of New England or the Pacific northwestern States would cer-

tainly prove an incentive to an expansion of the tourist trade itself.

The present agreements have done now more than set the stage; the forms which economic co-operation may take from now on are countless. A closer collaboration of the two economies on the basis of defense, starting from the allotment of armament orders in the most favorable areas of both countries without prejudice, might extend to the joint financing of new works, with joint production, and eventually to longer-term programs for the development by United States capital of unutilized resources in Canada—especially coal, oil and water-power. The St. Lawrence project is a step in this direction, or could be made so. The principal obstacle to plans of this kind at present is the balance of payments problem, which will prove a stumbling-block to any schemes of co-operation until it is rectified.

The Hemispheric Trading Bloc

The schemes proposed can be reduced to three major objectives: (1) orderly marketing of the major export commodities of the hemisphere throughout the world; (2) exchange control necessary to cover the trade within this hemisphere and with the rest of the world; (3) machinery for the distribution of surplus commodities within the hemisphere.

The problems that the inclusion of Canada will add to the already tremendous difficulties are serious but not insuperable. In the first place, Canada's exportable surpluses have to be arranged for, and second, the increasingly bad exchange situation between Canada and the United States has to be corrected. Let us look at the surplus problem first.

The problem here is not merely that of finding markets, inside the hemisphere or out, for Canada's present export production. That would take so long to achieve that meanwhile the surpluses piling up would render success impossible. We have rather to study the ways in which the present structures of the economies, not only of Canada, but of the United States and all the Americas, can be modified and reorganized so as

to mesh better with one another, and so as to leave as few outstanding surplus problems as possible.

Canada's economy has always been heavily overweighed on the side of foreign trade. During 1937, 1938, and 1939 the average annual export surplus of the Dominion was \$186 million. The maintenance of an export surplus has always been an important factor in meeting the huge foreign indebtedness. On the basis of Canada's average exports over the last three years, an inter-American trading body would face the problem of disposing annually, in addition to existing imports from Canada, of the following amounts of goods, normally exported outside the hemisphere: wheat, 79,768,000 bushels; wheat flour, 4,356,000 barrels; bacon and ham, 183,600,000 pounds; cheese, 82,564,000 pounds; wood-pulp, 247,800,000 pounds; newsprint, 996,600,000 pounds; aluminum, 111,900,000 pounds; nickel, 131,100,000 pounds; zinc, 318,600,000 pounds. Including these and other products, Canada annually exports goods valued at over \$580 million to countries outside the hemisphere. Moreover, these figures do not allow for the surplus stocks of commodities piling up in Canada, of which wheat alone has reached the fantastic volume of 800 million bushels, nor do they allow for the greatly expanded productive capacity which will emerge from this war. What solutions or mitigating circumstances are there that can lessen the gravity of these difficulties?

The greatest outlet for Canadian goods must be in trade with the United States and the other American countries; the next largest its trade with Britain and the members of the Commonwealth. At what points can competition between Canada and the United States be said to represent a real problem? There is little competition of the Canadian and American industries in the export markets. Direct competition between the two industries in their respective domestic markets is restricted by the existing tariff structure; as long as the present system prompts American manufacturers on the one hand to put money into

Canadian branch plants, and Canadian consumers on the other to pay high prices for the sake of protection no competition is likely to take place. From the point of view of dealing with immediate difficulties this may be counted as an advantage. Clearly, in the long run, this situation of two industries growing up alongside each other, prevented from integration by a tariff wall, can only breed more problems for the future.

Some of the largest Canadian industries, in fact, have been facing a rising demand in the United States, due to shortage of stocks, loss of other sources of supply, and rising output. These increases may not reach any considerable level at the present time. Indeed, the United States now is taking less goods relative to the volume of production in this country than in December 1939. The Federal Reserve Index then was 126, for each point of which Canada exported \$435,000's worth of goods to this country. In September 1940, the Index was 124, and Canada's exports to the United States amounted to only \$316,000's worth per point. This situation can be traced back to the difference in the nature of the boomlet in the United States during the first four months of the war and now. Then inventory accumulation was the principal motive. Now consumer's goods industries have a less important place in United States industrial output.

Nevertheless, lumber products and non-ferrous metals have made notable gains. The United States has been producing 75 per cent of its woodpulp requirements but of one of the kinds of pulp, unbleached sulphite, it has been producing domestically less than 50 per cent. Nearly three-fourths of the imports of this kind of pulp have been coming from Sweden and Finland. Canada and Newfoundland have been contributing 85 to 95 per cent of United States imports of newsprint, the remainder coming from Europe. Much of the domestic production of newsprint, which amounts to approximately one-fourth of consumption, is made in part from imported pulp or imported pulpwood. Expanding con-

sumption in the United States of this virtually duty-free commodity is therefore proving beneficial to Canadian exports in view of the loss of European sources of supply. The only limiting factor on Canadian exports of some of these goods to the United States would appear to be Canadian productive capacity, at least until the end of the war, when it will be the task of the hemispheric trading body to make the decisions regarding a return to European sources.

Mineral production in Canada has expanded considerably since the outbreak of war, and exports of nickel, copper and zinc have made notable gains. British purchases account for the bulk of these exports. But the increased production of these commodities has a greater significance for the long-term prospects of inter-American trade. While the war continues, the majority of Canadian exports will go to Britain, but for the purposes of organizing, either now or in the future, a hemisphere trading bloc, the potential expansion of trade that may take place in these commodities between Canada and the United States will help both exchange and surplus problems. Strategic materials such as asbestos, nickel, pyrites, mica, talc, are at present obtained, or could be obtained from Canada. With increased inter-American trade, these will be in greater demand in this country and the Canadian economy will find it so much the easier to fit itself into the hemispheric front.

The problem of Canada's agricultural future is a different matter. Here it is not merely a question of expanding production in those lines in which demand will increase in the United States or Latin America as extra-hemispheric sources of supply dry up. There seems to be no adequate solution for the Canadian wheat problem, just as there is no adequate solution for the problem of cotton in this country, short of a drastic reorganization of agriculture. After all possible shipments of wheat have been made this year to England and the few other remaining markets a quantity of some 460 million bushels will remain in storage. Production on this scale, in spite of

temporary checks to European wheat crops, means an increasing problem of disposal for a hemispheric marketing body. It is, to say the least, improbable that the United States will take steps to relieve the Canadian wheat situation until Canada itself comes forward with a program of adjustment. Until Canadians succeed in establishing effective crop control, perhaps in combination with a comprehensive policy of diversification for the prairie provinces, this particular obstruction to successful collaboration is bound to persist. Incidentally, in connection with diversification proposals, it may be noted that consumption of dairy products is due to rise both in Canada and the United States as a result of the industrial boom. The consumption of dairy products tends to increase very considerably directly the family rises above subsistence level, a fact constantly noted in the families transferred from relief to employment. A part of the increased consumption will undoubtedly come from a new use of existing supplies—less liquid milk will be used for manufactures and more for drinking, for example—but there is certain, at the present rate of expansion, to be an increase in demand over and above this. Thus a rising demand at home in Canada, and in the United States, coupled with the loss of foreign supplies of cheese and similar imports, will make dairy-farming a much more attractive prospect for a good many Canadian farmers than wheat-growing. To a lesser degree, Canadian livestock producers may benefit by a rise in demand as well.

A lesser, but by no means negligible, opportunity for exportation is offered to Canada by its trade with Latin America. In past years Canada has been accustomed to have an unfavorable balance on its total trade with the Latin American countries, due almost entirely to its relatively large purchases of coffee from Colombia. In the first eight months of 1940 its imports from Brazil, Venezuela and Argentina have more than doubled over those for the same period last year. Thus Canada, though it has

been used to an annual trade of approximately \$14 million only, is in an increasingly good position to bargain with the Latin American countries. A program of industrialization for Latin America, financed by American capital, would help provide increased outlets for Canadian exports, whether in the form of industrial equipment shipped from Canada, or of raw materials to the United States there to be manufactured into equipment for Latin America. In most manufactured products, however, Canada would be offering the same article as the United States, often under the same trade name even, produced at higher unit costs. Only if the industrialization of Latin America were great enough to bring about a sizable rise in the standards of living in the Latin American countries would Canada be in a position to profit to any extent from inter-American trade.

The present structure of the Canadian economy therefore presents some major obstacles to the organization of a hemispheric trading body. But by means of careful investigation and wise planning there is no reason why the forces of Canadian enterprise could not be directed toward closer economic contacts with the United States at many points. Canada must export or die, according to the rubric, but, if an increased part of what she exports continues to go to Britain and the United States, the quantities of goods remaining may well go to form a part of that bargaining weapon with which the authorities of this hemisphere, in joint consultation, will do business with the trade monopolies abroad.

Let us turn from the problem of surpluses to that of the balance of payments. It is obvious that if the program of extended trade between envisaged above takes place the present situation will automatically improve. Nevertheless the situation is bad enough to warrant special measures. The import balance of trade with the United States has become of increasing concern for Canada. For the month of August 1940 it rose to \$25 million, compared with \$16 million in July, and amounted to \$160 million for

the first eight months of this year. Part of this gap was filled by \$134 millions worth of non-monetary gold exported to the United States, although in all matters of Canada's gold production for export it is as well to remember that American capital, through its investment in the production, has a controlling interest in the sale of much of the metal. The rest of the gap was filled by tourist receipts, Foreign Exchange Control Board gold and/or United States dollar holdings. The former method of selling the sterling proceeds of Canada's favorable balance with the United Kingdom in order to meet its American debts is no longer effective.

While the war continues and the present arrangements are still in force the balance of trade is bound to grow worse and worse for Canada until there comes a time when the gap can no longer be filled. Unless there is some kind of co-operation from the United States at this point or before, Canada will then be compelled to take some such action as an embargo on unessential imports from this country, selling out the last of its United States securities, or ceasing interest and dividend payments on its indebtedness to the United States. If the United States has not already contributed toward helping the situation by some method of economic collaboration growing out of the defense agreements, it will have to choose between a policy of immediate loans to Canada for the purchase of supplies here and giving the supplies outright. Considering the bad effect of such loans on post-war relations there are strong arguments for the latter.

The importance of this exchange question in any consideration of Canada's part in a hemispheric bloc is clear. It is a matter vital for the stability and welfare of Canada's economy. While this remains unsettled, the expansion or reorganization of the economic life of the country, after a certain point, is shackled. If Canada is permitted to drift into economic chaos there will be danger of a growth of the very same evil tendencies which we in the Western Hemisphere are making every effort to

repel from these shores. This is a problem for the United States primarily. The program of obtaining supplies from Canada formerly brought in from outside the hemisphere, combined with longer-term schemes for the development of Canadian resources till now neglected as uneconomic, may solve the problem in time. But this is a subject that will require attention in the very near future.

It has become plain that the defense agreements have barely scratched the surface of what remains to be done to bring the two countries into practical collaboration. These are emergency meas-

ures, it is true, taken to meet extraordinary contingencies, but it would be short-sighted not to realize the direction in which they are tending. The one positive outcome of this war, already apparent, promises to be the drawing together of the English-speaking nations in an economic unity of permanent significance for the future of the world. The commodity problems of the Americas are such that there can never be a permanent solution within the borders of this hemisphere alone. Closer relations between the Americas and the British nations of the Commonwealth can help to solve them.

The Role of Adult Education in a Defence Program

By MORSE A. CARTWRIGHT

From an Address presented at the Maritime Conference on Adult Education, Nov. 9, 1940

IT seems to me, in my own country at least, that adult education may play a very great part indeed in the problems of defense—problems that are common both to Canada and the United States. Primarily we must agree to think of the term “defense” in its widest sense. It must include our material defense, yes—ours and our neighbors. But it must also include the defense of our social institutions, of our way of life and of our economy. Above all, it must include a willingness to defend, and to fight for, our attitude toward the spiritual considerations that raise our civilization above that of the beasts of the field. Our attitude toward and belief in freedom comes first. And from our attitude toward freedom springs our attitude toward the more concrete forms of common

decency, common morality, religion, family life, tolerance. Out of these, in turn, come our common concepts of loyalty and faith. These latter supply the elements upon which our governments must be based if they are to endure. Taken in their entirety, these common elements, forms and concepts comprise a democratic system, to which we adhere in the face of a frightened world seeking false safety in the empty promises of totalitarian dictators. It is in the promotion of public understanding of these factors that adult education finds its most important responsibility.

My remarks about this important new responsibility of adult education reveal the stage that our thinking now has reached in the United States. We are behind Canada in that respect for we have had the doubtful advantage of months that may even stretch into years during which presumably we have been, and shall be, making up our minds to the

EDITOR'S NOTE: Dr. M. A. Cartwright is the well known Director of the American Association for Adult Education. A report on the Maritime Conference on Adult Education at which Dr. Cartwright's address was delivered is contained on p. 93.