

(April 3rd, 1939)

“Present Economic Trends in Britain”

By MR. GILBERT JACKSON

MR. CHAIRMAN AND GENTLEMEN:—Your invitation making me your guest this morning is particularly welcome: not because I come here with a message to deliver—the longer one lives, the less one feels like “A Man with a Message”—but because it gives me the chance to say “How do you do?” to quite a lot of my friends collectively—whom it will take me weeks and weeks to greet individually when I have settled down.

If anything were needed, Sir, to complete my pleasure in being here, it is to find yourself as Chairman. Indeed, with Dick Meech on one side, and my old friend Bert Hooper on the other, I would gladly face a much more difficult situation, than the very delightful one in which I now find myself.

As you have just remarked in your too kind introduction of me, during the past four years it has been my privilege to look at current history from a position close to the centre of things. The same events may seem very different, when looked at from different angles, and it is a purely personal impression that I shall give today—reminding you beforehand that there is nothing of the “Now it can be told” about my remarks. While I have no doubt that the Gentlemen of the Press, whom I note at their accustomed table, will with their usual chivalry try to convince their Editors that something worth recording has been said here this afternoon, this is not what my friend Napier Moore would call “The Dope”—but merely the travelogue of a returned Canadian.

It may have some value—let us be hopeful, anyway—because the more the reflections that any man among us can collect, of what goes on in other parts of our Empire, the more helpfully can he face the problems that we share in common. Which brings to mind a tale illustrating how sad may be the gaps in any one's knowledge.

A bright young Australian in London belonging to what once was called *The Gentler Sex*, was talking to the Canadian High Commissioner, our friend Vincent Massey—who for three years past, I should add, has been doing a magnificent job for us in London. She complained of the devastating ignorance on things Australian, which is shown by some Canadians. "For instance," she said, "I wonder how many Canadian girls could tell you correctly, What is the capital of Western Australia?"

"Well," said Massey, "doubtless lots of them would get it wrong. But I wonder," he continued, "if we were to reverse the position, how many girls from Australia could correctly tell me the capital of Saskatchewan." "Don't be silly, Mr. Massey," said the lady from Australia. "Nobody knows better than you do, that there's no such place."

Your Englishman can be just as bad; and though he knows all about the Dionne Quintuplets, the Millar Will and the Social Credit Paradise in Alberta—though he buys Lord Beaverbrook's newspapers, honours his new neighbour, Mr. R. B. Bennett—and eats George Weston's biscuits—he surprises me sometimes by his failure to realize what we have got here in this Dominion, and what lies before us in the next two generations. To that subject I shall presently return.

But it is not about Canada that I have come to talk. If this were an English audience, I could address it for a long time on the subject of Canada. Here, we have met to talk about England.

I reported for work there in May 1935—nearly four years ago. The contrast at that time between England and this country was quite amazing. England had enjoyed nearly thirty-six months of sustained recovery, the British trade indices were all of them pointing upwards, and John Bull was feeling pretty good.

Speaking in relative terms, England was certainly then the most prosperous land in the world.

If, when we speak of prosperity we mean prosperity for everybody, then England's was not a genuine prosperity: for there were still, as there have been ever since the War, many thousands of unemployed. But these were largely concentrated in a few specific industries and areas: the rest of England was indubitably prosperous.

No need for me to dwell on the reasons for this, with one exception to which I shall come in a moment. You know that England is a land of stable business conditions. You know too that in 1931 and afterwards, England put her house in order with a skill and reasonableness and resolution which only one country then imitated—Australia. Like Australia, she gained full marks for her foresight. But there was a fortuitous element in England's 1935 prosperity, to which we must give a great deal of importance. I mean, the continued war prices of foods and raw materials.

England's export trades had not recovered. But because the countries overseas—including Canada—were still hard pressed for business, the foods and raw materials that England has to purchase in such quantities were still on the bargain counter. England knew too much to rejoice at this situation—nobody realizes better than she does that an impoverished customer is a poor asset—but it so happened at this particular time, when she had to make the most of opportunities in her own home market, that the cheapness of imported goods, the bargain counter prices still ruling for foods and raw materials, liberated an immense purchasing power for expenditure on goods produced domestically. There was a flood of money, not required for purchases abroad, which went into houses, radios, vacuum cleaners, cars, clothing, alcohol and amusement—things produced in the home market—and that, as much as anything else, was responsible for the relative prosperity that I found there.

Not only this: but in a world that remained unstable and apprehensive—in a world subject to financial shocks from all sorts of unexpected directions—England had enormously strengthened her own financial structure—a fact for which, today, we should thank God—so that she was equipped, as never before, to stand strains and stresses

originating elsewhere. I doubt, indeed, whether since the principle of Limited Liability was first invented, there has ever been a decade in which technical developments in banking and finance have been so rapid and so helpful, as in the decade from 1929 to 1939.

That is the favourable foreground of the picture. What of the perhaps less favourable features in the background?

I have already referred to the continuance of unemployment. In each of four or five well defined areas, commonly called the Distressed Areas, there was a morass of unemployment, due to prolonged depression in some industry such as coal or shipbuilding. Successive Governments had tried to drain these morasses, and by common consent had failed. Where they proved powerless, there was another agency which was meeting with a certain amount of success, although slowly. That agency was the death-rate. You can't take an unemployed shipwright and make him a clerk, or an unemployed hewer of coal and make him a butler: but when the time comes to bury both of these men, their names do vanish from the register of unemployed. Meanwhile, their children have in many cases gone elsewhere, into newly-born industries producing for the home market or (in a proportion of cases) into domestic service. It was a tragic situation; on which I will not dwell.

Secondly, there was a pressure on the national finances, due to the demand for increased social services. This would not matter so much, in a world where peace was guaranteed. But the peace of the world, at best precarious, was to be threatened more and more directly. Vast sums had been saved in the Budget, by the refinancing of the British debt—but they were not really saved, only diverted to the Social Services, state education, sickness and unemployment insurance, and so forth. Britain was spending no less than \$200 million a month on the social services—rather more, in fact—and the burden of peace-time Taxation had seldom or never been heavier than it was in 1935.

If rearmament should prove necessary, therefore, it meant a return, in peace, to wartime tax rates; and left very little margin of taxable capacity, should the pace of rearmament be hastened, or war actually start.

Thirdly (so did I conclude, at least) these prosperous years in England had induced in the popular mind a dangerous complacency. There were all sorts of problems in other lands: anyone in England could tell you quite a lot about the Canadian railway problem—or about the horns of the various dilemmas on which President Roosevelt found himself impaled from time to time—or about the troubled state of France—or the problems that Hitler was creating for himself in Germany. But (I speak as an individual, and on this point may be wrong) it seemed that a fair share of thought was not then being devoted to the sometimes imperfectly strong foundations of British economic security.

That is a picture in which light and shade are blended. While I have tried to paint it fairly, nobody knows better than I how difficult it is to give a really balanced view.

My four years in England were destined to cover a rude awakening of England from this complacent mood—if indeed it was complacent, as I think it was. Nobody now doubts that England is face to face with realities; and it is one of the marvels of the world that London, so near the centre of disturbance, still remains cooler than New York about it.

What a people! A day comes when the choice as to peace or war depends on a speech by one of the Dictators. Fleet Street puts out a placard—"Hitler Speaks"—and everyone buys his favourite evening paper hurries through the speech, and then, like a sensible man, turns to the sporting page to find who won the 3.30. But about twice in a season, the placard, in letters of enormous size, reads "England's Collapse"—and everyone, looking very grave, buys all the papers, because it means that England has lost the Test Match against New Zealand or somebody, which is a very serious business indeed, and requires a full explanation.

But I should perhaps record that there is still in England a certain amount of what the psychologists, I believe, call "wishful thinking". Thus, for example, when for years the British public had been taught to watch with sardonic amusement Uncle Sam's attempts to "spend himself into

prosperity"—the British papers pointing out from time to time (of course, in the most friendly spirit) how hopeless and indeed absurd such a policy must inevitably be—The Times came out this Spring, hard on Mr. Chamberlain's assumption of colossal borrowing powers in order to finance rearmament, with a couple of grave, closely reasoned, authoritative articles announcing that, in a period of uncertain business, an unbalanced budget is a pretty good thing, that it encourages the use of capital on labour which would otherwise remain in idleness, and that the forthcoming Defence Loans, besides making possible new Dreadnoughts and aeroplanes, might well be the means of restoring John Bull to something like healthy prosperity.

How did this awakening come? (I speak in economic terms, remember, not political. In regard to politics I make only one observation this morning, and I make it here. It is that there is one respect at least in which the tortuous British policies of the past four years do resemble the Peace of God. They do pass all understanding.)

Will you cast your minds back for a moment to the Spring of 1937? There was then, you may recall, an outburst of speculation in commodities. The prices of most of the goods, which for years past had been on the world's bargain counter, suddenly rose—and in certain cases rose fast and very high. Then the bubble burst; and in the summer of 1937 business in the United States began another tailspin. It was not a depression this time. We don't any longer talk about depressions, (at least, in places where the decencies of conversation are respected). Just as our grandmothers always called a leg a limb, so we talk, not about depressions, but about recessions—though that does not help noticeably the man who loses his job.

In any case, a few millions more in the United States were laid off. A few millions more became a charge on public funds. Wall Street took another licking. So did the White House. A fresh lot of new dealers had to be recruited. England watched all this with interest.

But soon in Whitehall and the City, questions were asked about things much nearer home. It was realized, by many people rather late in the day, that an enormous percentage of the world's rubber, copper, wool, cotton and so forth

is normally consumed in the United States; and England was now faced with the possibility that that "recession" might cross the Western Ocean—with unfortunate results for her.

The rearmament expenditures by then had been started on a large scale; and thoughtful men wanted to know, "Would this program of Government spending on battleships, planes, and tanks offset effectively the decline in business which, on general grounds, was indeed beginning to seem likely.

That is a question which, in the light of present developments, is capable I think of a rough answer. On the recent scale of rearmament expenditure England may scarcely hope entirely to offset the contraction in business due to general economic causes. And, if she were to spend for rearmament on a scale sufficient for this purpose, she would run a serious risk of upsetting her exchange position with the rest of the world. It thus appears reasonable to hope—if the Dictators will permit hope—that in due course the solution of this problem for England may take the form of a substantial recovery by business in the United States.

But if spending for armament purposes can scarcely prevent a depression, it can affect its local incidence; and it has. The Distressed Areas, in general terms, are areas devoted in a large degree to the heavy industries. Rearmament has certainly done a lot for the Distressed Areas. There are many thousands of coal miners working, and blast furnacemen and riveters and shipwrights, as a result of rearmament, who would otherwise still be drawing the co-called "dole." Here is a force more cheerful than the death rate, to drain the morass of unemployment at which we were looking a few minutes ago. The Distressed Areas are still with us: but now they do present a less depressing picture.

In any case, unfortunately, this great volume of public spending that has been forced on England by the Dictators is bound to raise a lot of problems. It makes necessary greater importations. It occupies firms which would otherwise be looking for export orders. It puts up, or keeps up costs of manufacture, thus also hampering Britain's export trade. Everybody knows, for example, that the costs of shipbuilding in England are very high just now. British

shipbuilders face heavy natural, as well as artificial handicaps, in tendering against continental shipbuilders. And shipbuilding is not just another British industry. We must recognize it as a key British industry.

Moreover, rearmament must mean a great deal of Government borrowing. That is of special interest to Canada, since we would make good use here of a lot more British capital—or think we could. What will this borrowing do to money rates, and what effect will it have on the quantities of British capital available for ordinary purposes?

If I were a prophet, I would become quite interesting at this point. But I got out of the prophecy business a long time ago. Let me limit myself, instead, to looking at what has happened to money rates in the past four years, and what are the general conditions that appear to govern them now.

First, as to the rate of interest on long term Government bonds. On a certain afternoon of January 1935, I was chatting with a financial veteran in London, who has retired since then. There had been a little market flurry during the day. He said, "I should not be surprised if today marks the turning point in the present cycle of money rates: if looking back on yesterday, presently we come to recognize it as the low point."

That was a "hunch" and nothing more: but it was the "hunch" of a very shrewd man. And if you look back on the London market for the past four years, it becomes clear that very slowly, scarcely perceptibly from month to month, but beyond any doubt at this stage, there has been a stiffening of the long-term rate of interest in the London money market. Rates are still, in terms of ten years ago, quite low. But they have risen: and the striking feature in the present situation is that here in Canada the Dominion can now borrow just about on the same terms as the British Government must offer, when it makes a London issue.

So much for what has occurred already. Looking to the future, we know that the British government has already taken power to raise \$4,000 million in loans, and that it contemplates again increasing this figure. What they propose to do certainly comes well within London's capacity: but the sum is a staggering one, nevertheless.

It looks, therefore, not unreasonable to suppose that the present trend of long term interest rates in the London market may continue: not that any dramatic developments are in sight, of course—but \$4,000 million is a lot of money.

So far as short-term rates are concerned, on Treasury Bills and bonds of near maturity, members of this Club know just as well as I do the conditions prevailing in the past few years. Easy money conditions have been fostered by the great central banks and private holders of funds, continuously nervous, have had a passion for liquidity. Hence the quite absurd returns in the short term market.

Now nobody can tell what the central banks are thinking about. Central banks are the most reticent institutions, almost, on earth. But private holders of funds are if anything more nervous than ever, and there is nothing in the present situation, which is calculated to give them new confidence. It looks, therefore, as if the motto "Safety First" will still keep the short term market in over supply.

These considerations lead me to the question, which interests everyone within sound of my voice, "Can we look for a substantial influx of English money to Canada during this phase in the world situation?" One must, of course, discuss the question against the background of monetary conditions in London.

But there is another factor to be considered, and that is the British psychology. The British are the strongest people on earth, in the long run, because the most united, and because the Britisher, however poor and humble, even if he possesses not a stick of property, feels that in a sense the British Isles as a going concern actually belong to him.

I find in the people I come across in England this disposition. If England falls, they say, there will be nothing more for us anyway. We stand or fall with the country. Where we are, there we may just as well keep our money. Provided that we survive this generation, it will probably survive too.

There is going to be no panic flight of British capital, so far as anyone can see now. There has been a great flight of funds from London: everybody knows that. But while some of the money was British, no doubt, I feel quite cer-

tain that the great bulk of it was foreign: and England is not weakened, but rather the stronger, through losing it.

In other words, if we want British money to develop Canada, we must get it on our own merits, and not by counting on the fears of a people that will not be governed, under any circumstances that we know, by fear. It is no good selling England the jitters: you couldn't approach a worse market. If you wish to sell something, sell Canada.

That does not mean, of course, that there is a poor prospect of attracting funds here. Rather the contrary. For in present conditions, every small state in Europe knows itself in danger. The citizens of every small state have seen what happened in Austria, what happened in Czecho-Slovakia, to the funds of business men. There are the best of reasons for the citizens of those countries to find a cache overseas for some of their money: nor will the funds that leave these small states be what is called "hot" money. Where those funds are put, there I should expect them to stay.

The continent is more aware of Canada today, perhaps, than at any former time. And what a position this Dominion has! Four thousand miles away from the Dictators — its institutions British — and its rulers Scotch — possessing no navy but guarded by the two greatest navies in the world — there is no country today more secure, perhaps none as secure as Canada. That money from the continent of Europe will come here in large quantities, I myself have little doubt.

And now, Sir, my task is done: badly done, I fear, for these remarks have been put together in a time of high pressure. In any case I came here with no doctrine to preach — but hoped only to sketch, as well as I could, some impressions gained abroad, and to present them here in Canada.