

For example, most American holders of Canadian bonds pay U.S. taxes. They can offset most or all of the Canadian withholding taxes on the interest they receive from the taxes they pay to Uncle Sam, so they are not out much, if anything. If we were to drop our withholding tax in such cases, the only effect would be to reduce the revenues of the Canadian Treasury in order to benefit the United States Treasury. That would be an act of generosity which this country cannot afford and which our American friends are too affluent to need.

But the fast-growing pension trusts in the U.S. do not pay taxes in that country. That being the case, it has not been in their best interests to buy Canadian bonds on which the interest was subject to Canadian withholding tax. It was to secure access to this new and great potential market for our bonds that the change in our tax laws was made last year. Now, after obtaining the necessary certificate from the Department of National Revenue, the city of Peterborough, for example, is in a position to sell its debentures to a U.S. pension trust without being required to deduct the 15 percent Canadian withholding tax from the interest payments. Not only will this make Canadian bonds more saleable but it will help to keep interest rates as low as possible.

ABSENTEE OWNERSHIP

But what worries some people, myself included, is that so much of the foreign capital invested in Canada is not in the form of bonds or other fixed-term securities, which can be paid off some day, but instead is in the form of equity investments that can never be paid back if the foreign owners do not wish to sell. The most recent figures available show that at the end of 1961 our total foreign liabilities had reached \$27.8 billion, and nearly half of that amount, \$13.7 billion, was in the form of direct investment in foreign-controlled branch plants and subsidiaries. This means that much of Canadian industry — certainly a very great deal of our big industry — is controlled by absentee owners and could continue to be controlled by absentee owners more or less indefinitely. I do not believe this to be healthy.

In the early fifties, at a time when a broad expansion of Canadian industry in all sectors was under way, but most importantly in the resource sector, one could begin to point to key Canadian industries in which a relatively few companies controlled by non-residents pretty well dominated the industry. The role of non-resident firms was pre-eminent, for example, in the oil-and-gas industry. Foreign-controlled firms were dominant also in aluminum, iron ore, asbestos, in most sectors of the chemical industry, and in at least three important secondary manufacturing industries — automobiles, electrical apparatus and appliances, and rubber products.

Since the early fifties, direct investment from abroad has continued to flow into Canada in significant volume. In certain key sectors of our economy, foreign ownership and control has reached very high proportions. The latest figures available, which are for 1961, indicate that non-residents control almost 70 per cent of the value of investment in petroleum and natural gas, 59 per cent in mining

and smelting, and almost 60 per cent in manufacturing. This means not only that the key decisions respecting Canadian industry are made by people who live outside our borders but also that our industrial companies are affected directly by events and conditions that prevail elsewhere. For example, the largest company in Ontario was closed down recently because its parent company in the United States was strikebound....

There are those who say the advantages we gain from these relationships far outweigh the disadvantages. Certainly, foreign investment in the key sectors of the economy I have mentioned has helped the development of our country faster than it might otherwise have happened. It has given us access to technological, scientific and managerial skills that otherwise it would have taken us longer to acquire. And, in the case of some of our great producers of industrial raw materials, it has provided the assurance of markets without which some of the developments would not have been able to proceed.

Nevertheless, no other economically-advanced nation has such a large proportion of its industry controlled from outside its borders. Let us not pretend the advantages I have mentioned have been an unmitigated blessing.

CURRENT-ACCOUNTS DEFICIT

Some of our greatest difficulties in Canada have been caused by the fact that, year after year, we have bought more goods and services abroad than we have sold abroad. The difference is known as the current-account deficit in our balance of payments with other countries. This current-account deficit has been offset by capital inflows — including both the capital we have borrowed, which we hope to pay off in the future, and the capital invested here in Canadian subsidiary companies and Canadian resources.

This situation — the incurring of a deficit in our transactions with other countries — has been going on for years. In good times it hasn't seemed to matter so very much. The capital inflow has helped to develop the country quickly and borrowing for this purpose can properly be justified. It is more questionable, perhaps, when it means transferring to non-residents equity investments and the right to make decisions that affect our lives and interests.

But in bad times it makes no sense whatever for Canada to buy more goods and services abroad than we sell abroad. From 1958 to 1962, for example, we had unused resources and great numbers of idle people in this country. And yet we kept on going into debt to foreigners and selling off our Canadian companies to them in order to pay for the things we wanted to import. This did not make sense. In effect, we were importing unemployment.

The situation is much better now than it has been for some time, but we have a considerable way to go before any of us can feel satisfied. We are still running a substantial deficit on current account in our balance of payments — and, while unemployment is lower now (on a seasonally-adjusted basis) than at any time since 1957, there are still too many people unemployed in some parts of the country.

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