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BALANCING CANADA'S TRADE BUDGET

"Canadians tend to take for granted the importance of trade in their lives", the Minister of Trade and Commerce, Mr. Mitchell Sharp, told the Fifth Annual Meeting of the International Claim Association in Montreal on September 9.

While the proportion of the U.S. national product represented by exports was only about five per cent, Mr. Sharp pointed out, the Canadian proportion was 20 per cent. The economy of Canada, except for the "industrial heartland" (the Great Lakes and the St. Lawrence valley), was based on industries producing largely for export. In such a country as Canada a far higher level of production was required than the domestic market alone would justify. "For these reasons", he observed, "foreign trade has a deeper and more personal significance for most Canadians than for Americans".

IMBALANCE OF PAYMENTS

The Minister turned next to the Canadian trade deficit. This imbalance, he explained, was not, like the U.S. deficit, caused by the "outflow of funds reflected in the loss of gold" but by the failure of Canada's earnings abroad to keep pace with its foreign spending. The "external-earnings gap" had come about, however, less from overspending than from under-use of the country's productive resources. The solution posed lay, therefore, Mr. Sharp suggested, "in the direction of expansion rather than containment". He went on to describe as follows the kind of expansion he had in mind:

"... Canada's present run of current-account deficits began in the mid Fifties – when the rapid pace of development then under way brought about an unusually sharp upsurge in imports. This adverse balance rose to an all-time high of more than 1½ billion in 1959 and it was in the neighbourhood of $850 million in 1962. Following several years of adverse balances, Canada's merchandise-trade account with the world as a whole showed surpluses in 1961 and 1962 and there is evidence of further significant, even striking, improvement this year.

"The hard core of the problem, therefore, lies in the area of non-merchandise transactions, where the position has shifted from a near balance in the late 1940's to a deficit now running at about $1 billion. Of the major areas encompassed in the non-merchandise account, tourism is the only one which appears to offer scope for any early and significant improvement. The deficit on tourism has already declined from its recent high and the achievement of no worse – and I hope better – than an even balance appears as a reasonable prospect for the years ahead. On the other hand, net payments for interest and dividends and for business services, which together account for four-fifths of the $1-billion non-merchandise deficit, give every indication of further increases and are not, in fact, susceptible to reduction except in the long run. It seems evident, therefore, that for some considerable time Canada's non-merchandise deficit, even in the most favourable circumstances, is not apt to fall much below the $1-billion mark.

(Over)