

*The Budget—Mr. Gordon*

This government favours the kind of credit conditions which will encourage economic expansion. In saying this I am aware, of course, that our balance of payments situation must at all times be kept in mind. The governor of the Bank of Canada has made it clear in his public statements that he shares these views. Close and continuous consultation has been going on between the governor and myself since I became Minister of Finance. I am looking forward to a continuance of this consultation in the future.

I wish to say a further word about the relationship between the government and the Bank of Canada. In the last analysis it is the government that must take responsibility for monetary policy, as for all aspects on economic policy. There can be no misunderstanding on this score. At the same time the government recognizes that this does not relieve the bank of its own responsibilities in these matters.

I am in substantial accord with the views expressed on this subject by the present governor of the bank shortly after his appointment to that post. The royal commission on banking and finance will no doubt be considering whether the Bank of Canada Act should be amended to clarify these matters. The government will give careful consideration to any recommendations it may make. But for my part, I do not think any statutory arrangement will work satisfactorily unless there is close and continuous consultation between the government and the bank. I have already made it clear that such conditions exist at the present time.

Just over a year ago the government of the day decided on a fixed exchange rate for the Canadian dollar. I shall not discuss the causes of the exchange crisis which led to this decision, or rather I should say I shall not discuss them tonight. I do want to make it clear, however, that this government intends to maintain the fixed exchange rate at its present level.

I should now like to say a few words about federal-provincial fiscal relations. This is not a subject to be treated in detail at this time, since the Prime Minister has indicated the government's intention to propose a conference with the provinces in order that there may be a full review of it.

The summary of our financial position which I shall give shortly will make clear that the federal government is no less pressed for sources of revenue than are the provincial governments. This government assumes no rigid position on the sharing of joint tax fields. It is clear from the record of the past that readjustments of revenues and responsibilities are possible. But naturally no federal

government can ignore the problems of federal finance in seeking to lighten the burdens upon provincial treasuries.

There is a further consideration that has a bearing on this subject. The federal government has a special responsibility in the matter of ensuring adequate production and employment throughout our country. Fiscal policy is an important means of achieving this objective. Most people will agree, I am sure, that if the federal government were to give up a major part of its present revenue sources, even in exchange for compensating expenditure adjustments, its ability to exert an influence through fiscal policy over the level of economic activity in Canada would be weakened.

However, despite the inherent difficulties in federal-provincial fiscal relations I believe the present arrangements can be improved upon, but always within the letter and spirit of our constitution. We shall endeavour to bring about such improvement.

I should now like to discuss the question of non-resident ownership and control of Canadian industry. The latest figures prepared by the dominion bureau of statistics show that in 1959, 57 per cent of our manufacturing industry, 75 per cent of our petroleum and natural gas industry and 61 per cent of other mining and smelting in this country were controlled by non-residents. Anyone familiar with the financial pages of our newspapers can hardly be unaware of the extent to which these figures have undoubtedly increased since that date, that is, since 1959. The Canadian Oil, Atlas Steel, Royalite and Bailey Selburn takeovers in the last 12 months alone will have had a significant effect.

Canada derives material advantages from the associations of our industry abroad. Foreign direct investment in Canada has enabled us to achieve a relatively high standard of living much more quickly than we could otherwise have done. We must never forget this. But we must recognize that the extent of non-resident ownership and control which it has produced in Canada goes far beyond anything found in other countries is a comparable stage of industrial maturity.

In view of this situation we are entitled to take pride in the harmonious relations which have been maintained with the holders of foreign capital in Canada. These relations are based on fair treatment of those who have invested their capital here in good faith. These people must, and they will, continue to be treated fairly.

We shall continue to need substantial net inflows of foreign capital for quite a few years to come if we are to avoid further