

the Government should take special steps, when there are agreements to rationalize industries or encourage mergers, to limit any tendencies under free trade for the locus of private decision-making to shift outside Canada and for overall Canadian employment to suffer.

(3) The Federal Government, if possible in collaboration with the provinces, should take all possible steps to improve management education and training in Canada; to encourage research and development in Canada, specifically by strengthening the links between Government, university and industry research; ensure Canadian benefits from Government-subsidized research and development, as, for example, by prohibiting export restrictions and by using some Government funds for purely Canadian initiatives. It should also take all possible steps to encourage the growth in Canada of merchant banking facilities, that is to say, financial institutions with entrepreneurial ability. Specifically it should consider improving the legal position of the closed end funds so that they will become more effective vehicles for the exercise of Canadian entrepreneurship.

(4) Many witnesses suggested that the Government should make a special effort to encourage the growth of Canadian owned companies in rapidly growing "high technology" industries. This would be desirable provided proper precautions are taken to avoid encouraging unduly particular industries which are being given special incentives by other countries for the same reason and at the same time.

Particular attention should also be given to industries of special interest and importance to Canada. Canada should be the leader in innovation in the agricultural machinery industry. Yet the Committee understands that very little important Canadian research and development are carried on in this important field.

(5) In view of the possibility that in the future, the inflow of American capital may decrease because of American balance of payment difficulties or for other reasons, the Committee recommends that the Government give careful attention as to how the growth of the Canadian economy can be maintained. As noted in the Watkins Report (at page 410):

"the increasing stringency of American balance of payments policy gives urgency to the recommendations to improve the quality of Canadian factors of production and the efficiency of their use, and to create the Canada Development Corporation, so as to enhance the capacity of the Canadian economy to grow with relatively less foreign direct investment".

(6) The Committee has also concluded that it is better to have foreign investments in Canada spread among a number of countries rather than being as highly concentrated as they now are in the hands of American investors. The Committee recommends therefore that the Federal Government in collaboration with the provincial governments exert every effort to increase the flow of investment capital from other countries, while trying to avoid the undue concentration of such investment in any particular industrial sector.

(7) The Committee was informed that in recent years, much of the new debt capital for foreign-controlled firms was provided by Canadians. This weakens the argument that one of the major benefits for Canadians is the significant amount of new development capital brought to Canada by foreign-