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EXPANDING TRADE IN A FREE WORLD

The following is an abridged version of an address by the Minister of Finance, Mr. Donald M. Fleming, to the Kiwanis Club of Montreal on February 1:

"Canada has what has been called an 'exposed' economy. More than other countries, we are profoundly affected by international economic developments. The commercial policies of other countries which trade substantially with us are of great importance and concern to us. In volume we have in different years since the war ranked third, fourth or fifth among the great trading nations of the world, and throughout have stood first on a *per capita* basis. Our domestic policies must always take account of the influence exerted on our domestic economic conditions by the policies of other nations.

"The international climate has altered somewhat in the past several years, particularly for North America. Gone are the comfortable days when goods produced by the United States and Canada found easy markets in countries stripped by war and post-war privations. Europe has achieved a recovery of enormous proportions, and her efficient producers challenge North American production for markets everywhere. We have moved into a keenly competitive period, when the efficiency of Canadians in producing and marketing at competitive prices is being severely challenged. In this changed climate let us examine contemporary economic developments in Canada.

CONTROLLING CAPITAL INFLOW

"Before the supplementary budget of December 1960, it had become evident that unnecessarily large

inflows of capital were being attracted into Canada. Imports of capital, large in earlier years, served a very useful purpose in supplementing inadequate domestic sources. As circumstances changed, however, this inflow of capital pushed our exchange rate to unprecedented heights. This high exchange rate made imports from abroad cheap in relation to our own Canadian products and made exports of Canadian products expensive in relation to products produced by our competitors abroad. On both counts Canadian industry was placed at a disadvantage. This fact, combined with the recession in the United States, put a check on the growth of the Canadian economy.

"The supplementary budget of December 1960 and the budget of June 1961 were both designed to correct this situation by removing special incentives to the inflow of capital and by other measures. Since December 1960, we have been able to reduce the exchange rate on the Canadian dollar by more than 5 per cent. Canadian producers have thereby had their competitive position improved materially.

"Other measures taken by the Government have complemented this approach to our economic problems. Measures in the field of debt management and measures to encourage Canadian pension funds and mutual investment companies to invest in Canada have improved the financial structure of our country and provided better facilities for financing Canadian business by Canadian capital.

"One of the more important developments over the past year regarding the flow of Canadian savings to Canadian investors had been the marked expansion of the Industrial Development Bank. In its fiscal year

(Over)