

## Canadian Report Card: Mixed Marks and a Look Ahead

The latest Organization for Economic Co-operation and Development survey of the Canadian economy lauds employment growth second to none among the major OECD members in 1988-89 and economic growth second only to Japan's. 'Both the rate of unemployment and capacity utilization reached levels considered to represent 'full resource utilization' in the course of 1988 and have exceeded them since.' However, the OECD proceeds from there to point out that there has been little additional progress in Canada's fight against inflation since the rapid post-recession reduction in 1983-84. In addition, the federal deficit remains excessive. 'Output growth was stimulated by buoyant domestic demand, especially gross fixed capital formation, entailing a continuing decline in the foreign balance', the Paris-based organization comments. 'Repercussions on the current account in 1988 were cushioned by a further improvement in the terms of trade and by large net transfer receipts related to immigration from Asia.'

On monetary policy, the OECD cites the progressive tightening and says that given the importance of preventing a resurgence of inflation and the crucial role of the Bank of Canada's credibility in attaining this goal, the tighter monetary policy is appropriate and generally well received by the money markets. 'Achievement of the officially-declared objective of price stability would require temporarily opening a gap between actual and potential output.... All else equal, successful pursuit of the price stability objective would imply a trend appreciation of the Canadian currency, to the extent that other countries were less successful in stabilizing their price levels, thereby maintaining the real effective value of the Canadian dollar.'

An unforeseen increase in debt interest payments brought a sharp deterioration in Ottawa's projected financial position for 1989-90. This puts in some jeopardy the government's fiscal consolidation goals for the medium term. But the last budget's moves to restrain discretionary spending and to boost revenues were expected to yield net increases of \$3.7 billion and \$7 billion in the current and 1990-91 fiscal years. The

OECD says these would seem 'necessary and sufficient' to put the consolidation programme back on track, consistent with the policy goals of stabilizing by the ratio of public debt to GDP and then reducing it. The latest budget measures were admittedly more reliant on revenue enhancement than on spending restraint, but the OECD nevertheless expects that most of the medium-term gains will come from the restraint.

Within days of the Canadian survey's release, the OECD issued its 46th Economic Outlook for all 24 member countries, affording a look at Canada within an overall context. Growth in output over the next two years is expected to slide below Canada's potential and unemployment is expected to be stable. Gross Domestic Product (GDP) at market prices is forecast at 2.0% in 1990 — a comedown from last year's preliminary 2.9% — before an anticipated modest recovery to 2.2% in 1991. The unemployment rate, which averaged 7.5% in 1989, is put at 7.6% and 8.0% in 1990 and 1991, respectively. 'The slowdown in the growth of domestic demand which became apparent in the second quarter of 1989 may persist until 1991. However, high employment levels, continuing strength of private non-residential investment, and the sustained expansion of world trade should underpin steady, albeit modest, rates of domestic output growth.'

The expected deceleration is attributed to a projected gradual decline in export volume growth, which is due mainly to declining United States demand, and to 'restrictive' domestic fiscal and monetary policies. The current external deficit of approximately 1.75% of GDP is expected to widen to nearly 3% by the end of 1991. 'Consumer-price increases are projected to decelerate somewhat in 1990', the OECD says. 'However, the impending implementation of the reform of indirect taxation will entail step increase in the CPI (Consumer Price Index) of slightly more than 2% in early 1991. It is crucially important that this increase in the price level not initiate a self-perpetuating price-wage spiral.' (It should be noted that this latest Survey, which was completed in mid-October, could not take into account unanticipated

shifts in the government's plans for the Goods and Services Tax, notably the retrenchment to 7% from the original 9% rate for the value-added tax.)

Overall economic growth in the OECD, a preliminary 3.6% in terms of real Gross National Product last year, is projected at 2.9% this year and in 1991. Growth in the United States, meanwhile, is expected to decelerate from 3.0% in 1989 to 2.3 this year before recovering slightly to 2.5 in 1991. Japan's deceleration is expected to continue steadily, from last year's 4.8% to 4.5 and then to 4.3. OECD's European members, which averaged 3.6% in 1989, are projected to turn in 2.8% this year and 2.7 in 1991. The West German outlook within that framework is for 3.2% growth this year and for 3.1 next year, a deceleration from last year's 4.3.

Canada's current account balance, having shown a \$14 billion deficit last year, is expected to repeat that before slipping to \$15 billion in 1991. The OECD as a whole, after an \$85.3-billion current account deficit in 1989, is facing deficits of \$72.3 billion and then \$71.4 billion. OECD Europe's 1989 surplus of \$6.1 billion is expected to rise to \$10.9 billion before retrenching to \$10.1 billion. West Germany's phenomenal surge to a \$60.9-billion surplus last year from 1988's \$48.5 billion is expected to decelerate, to \$70.8 billion and recover to \$75.7 billion. The U.S. can expect last year's \$121.5 billion deficit to improve to \$118.1 billion before declining to \$123.8 billion. Japan's surplus, having fallen from 1988's \$79.6 billion to \$60.8 billion last year, is put at \$61.1 billion before a surge next year to \$68.6 billion.

Economic activity in the OECD has been buoyant 'but it has generally stabilized or even receded marginally since late spring.' The Outlook acknowledges that the forces underlying the buoyancy prevailing since 1987 may reflect more substantial and longer-reaching structural changes than its forecasts indicate.

Copies of both publications may be ordered from OECD Publications, 2 rue Andre-Pascal, 75775 Paris CEDEX 16, France. The cover price on the Survey is 55 Francs and its catalogue number is 44945. Subscription to the biannual Outlook costs 2,100F without a reference supplement and 3,100 with it.

## Diplomatic Bouillabaisse Leaves a Bad Taste

Long-simmering fisheries disputes with the European Economic Community and the United States have come quickly to the boil with no indication that either side in each case is willing to yield in a situation where giving way has serious short-term repercussions for domestic fishing industries. The difficulty is that the long-term result may be no East Coast stocks for any country. The negotiating climate has been worsened by an EEC proposal for quotas that are more than three times as high as had been recommended by the Northwest Atlantic Fisheries Organization (NAFO) and a Canadian warship fired warning shots near an American fishing vessel.

Canadian concerns about the EEC's activities are underscored by widespread closures and layoffs in the domestic fishing industry because of increasingly small catches in the region at issue. The 12 countries in the EEC have rejected charges that their vessels over-fish and they refuse to heed Canada's claims about the dwindling stocks. Canada is technically vulnerable in that the alleged European depredation — notably by Spain and Portugal on the Grand Banks and the Flemish Cap — occurs outside the 200-mile offshore economic management zone. The NAFO had recommended a ceiling of some 15,377 tonnes in 1990 but the EEC has responded with a 56,250-tonne quota. Although the EEC's target last year was nearly 160,000 tonnes and its 1990 target could be seen as restraint, it should be noted that the EEC fleets fell far short of their 1989 goal and the proposal for this

year seems to be set at the maximum they expect to take. The EEC's case is weakened considerably by the fact that its rejections of Canadian arguments about the fish stocks are made with virtually the same breath in which they announced reduced quotas in the rest of the North Atlantic and in Norwegian and Greenland waters. 'The fishing industry across Europe is hurting and everyone is trying to minimize the impact on their own shores,' one British official admitted after a fractious EEC ministerial meeting in Brussels. The problem is that in trying to minimize the impact at home, they are maximizing the impact on Canada, and figures for the first nine months of 1989 suggest the effect is very real: total catches were down 9.3% from year-earlier levels.

The EEC decision elicited a surprisingly low-key and even fatalistic reaction from International Trade Minister John Crosbie who, as a Member of Parliament from Newfoundland, has an abiding personal interest in the fishing industry. 'Extremely disappointed' is how he described himself, adding that he had not really expected the EEC to restrict operations off Canada's East Coast. However, he says, 'we believe that with time they will come to see they must observe the NAFO quotas.' Prime Minister Mulroney, on the other hand, was justifiably vigorous in a letter to EEC President Jacques Delors. Mr. Mulroney avoided diplomatic nicety in calling the decision 'appalling' and he reminded Mr. Delors that Atlantic Canada is dependent on the East Coast fisheries. 'This decision will further damage fish stocks which are

already badly depleted as a result of over-fishing by members of the European Community outside our 200-mile economic zone', he said in the letter. '...I will want to discuss this with you in person at the earliest opportunity as a matter of the highest priority.' A telegram of protest also went to French President Francois Mitterand in his role as Chairman of the EEC.

As for the dispute with the U.S., the Department of National Defence said that the destroyer Saguenay, on fisheries patrol secondment last month, confronted a U.S. scallop dragger on the Canadian side of Georges Bank, one of the richest East Coast fisheries zones. When the American boat refused to heave-to, and after a series of hull-to-hull contacts that left the smaller vessel holed at the waterline, several shots were fired from automatic weapons on the destroyer and one was fired from its main deck gun. The U.S. boat managed to cross the international boundary and make it home to Massachusetts. Canada has issued more than a dozen outstanding warrants for American fishermen since 1984 but no extradition treaty covers fisheries violations.

The climate for negotiation with the U.S. has been soured somewhat by Washington's recent decision to ban imports of small Canadian lobsters at potential loss to Canadian producers of up to \$30 million. American lobstermen are prohibited by law from catching the small lobsters allowed their Canadian counterparts, but Canada nevertheless is challenging the ban as a violation of the Free Trade Agreement. It is worth recalling that the first panel set up under the auspices of the FTA to resolve a dispute involved fisheries issues. That five-member panel ruled last fall that Canadian landing requirements for West Coast salmon and herring contravened the General Agreement on Tariffs and Trade as well as the FTA. Although Canada hailed the finding as having 'accepted the legitimacy of Canada's ... use of these landing requirements to conserve and manage these important fisheries', it was left in the final analysis with no option but to permit the direct export of some unprocessed fish to assuage American concerns. The proposal is 20% of the catch but the Fisheries Council of British Columbia says that will not satisfy the Americans.

## A Curious Posture on Pacific Trade

At a conference in Canberra on Asia-Pacific Economic Co-operation, (APEC) International Trade Minister John Crosbie warned the delegates not to be too hasty in setting up a new regional economic organization because of the possibility it might alienate other countries. Nevertheless, they agreed to create the new body, which the member countries want to promote economic co-operation within the group, notably on issues such as international trade barriers. 'We're not suggesting that we don't think it's necessary that any institution be established immediately', Mr. Crosbie said at a news conference afterward. However, he added that 'the dangers of moving too quickly are that you can't bring everyone along.' The countries within the Association of South East Asian Nations are patently worried that the broader-based APEC group could undermine the smaller body's role in promoting political as well as economic co-operation. Mr. Crosbie said that they have 'different purposes and objectives, so it wouldn't necessarily be a good idea' to have APEC play a pivotal role in ASEAN.