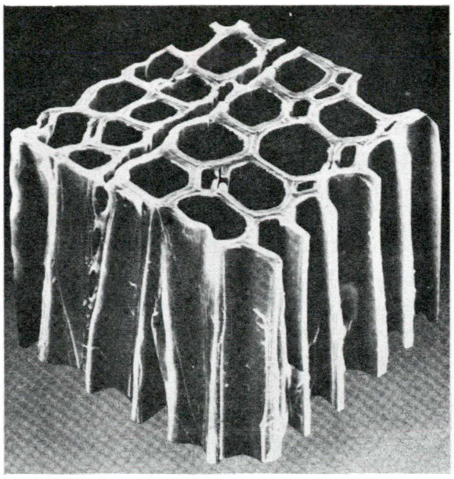

The tubular structure of wood fibres can be seen in this block of spruce wood, magnified 1,000 times.

There are two ways to separate fibres from wood. One involves mechanical action only – a log is pressed against a grindstone running in water, or wood chips and water are fed between two rough-surfaced, counter-rotating steel discs. In both cases, the wood is torn apart and disintegrated into fibres and fibre fragments. However, the damage to the fibres is so great that only paper in which cheapness is more important than strength can be made this way. The best example is newsprint.

After they have been separated from the wood, the pulp fibres may be further purified by screening, washing or bleaching. Sometimes, chemicals or dyes are added to the pulp or several kinds of pulp are mixed. This is done to give the paper strength, colour, particular printing qualities, or other special characteristics depending on its intended use.

The machines upon which the paper is finally produced are often as long as a football field. They cost millions of dollars to build, and can produce continuous ribbons of paper at speeds exceeding 30 miles an hour.

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World economic situation

(Continued from P. 2)

may have a further decline in the second. We anticipate some turn-around in the second half, but we think the recovery in the second half and into 1976 may be sporadic and sluggish.

Exports will not pick up until the U.S. economy gets into its recovery phase. We may well find, however, as I have suggested, that the rise in our costs will restrain the recovery of our exports and give trouble to our import-competing industries as well. We are anticipating that the deficit in the current account of our balance of payments will increase substantially in 1975. The terms of trade that have been moving in our favour will move against us as the prices of the goods we export will rise less rapidly than the prices of the goods we import.

Current-account deficit

The financing of the current-account deficit will require the net import of a substantial amount of capital. Last year our net capital imports were just under $2 billion. This year we shall probably require an inflow of significantly more than twice that amount. As you know, I recently withdrew the request to Canadian borrowers to explore fully the availability of funds in the Canadian capital market before floating issues outside of Canada. Parliament has also approved an extension of the exemption from withholding tax of interest on Government bonds. The exemption will now apply to Government securities issued before 1979. I should like to take this occasion to remove any confusion that may exist as to the policy of the Government of Canada regarding the foreign sources from which Canadian borrowers may seek to obtain capital. It is the policy of the Government not to express any preference among the foreign sources of capital flowing to this country.

The current-account deficit and the associated import of capital means that we shall be making a larger net drawing of real goods and services from the rest of the world. I recognize that a higher Canadian deficit is helpful in the broad picture of the adjustment of world payments balances. I should prefer it, of course, if the net increase in our use of foreign goods and services were also a net increase in supply flowing onto Canadian markets and not just a substitution of foreign supply for domestic. Our inflation problem would be relieved by a net increase in supply available on our markets. Our employment problem would be relieved if the foreign-source supply did not replace domestic output.

If we can keep our capital-investment programs rolling ahead, we shall have better success in taking full advantage of the higher net inflow of goods and money. Capital investment will improve our own productivity and help to maintain our competitiveness. At the present time, business fixed investment remains relatively strong and, indeed, is the main support of the economy. But I am not unmindful of the threats to the investment program posed by falling profits and softer demand in other sectors of the economy.

I believe that national production will start growing again later this year as I have said. But I have to acknowledge that history tells us that employment gains are likely to be modest in the first part of the period of renewed growth. The initial phases of expansion are almost always characterized more by a step-up of productivity than of employment.

The outlook for prices is very difficult to gauge, even on the assumption of reasonably good crops. One has to weigh the effects of the higher wage costs against the downward tendency of many commodity prices and the likelihood of a general decline in the rate of increase of prices in the United States, where domestic cost pressures are much less severe.

It is because our own cost situation is now so dangerous, because inflation is itself so damaging to our own national production, and because the fact of inflation limits one in the choice of measures to counter the slowdown of activity, that I attach great importance to the effort we are making to achieve a national consensus on the necessity of exercising restraint on the increases of prices and incomes in the Canadian economy.

If we all persist in trying to gain at the expense of others, the cost in terms of human welfare will be great, and greatest for the weakest.