



CANADA

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## A NEW YEAR'S LOOK AT CANADA'S FINANCIAL STATE

*The following is a partial text of a speech by Mr. Walter L. Gordon, the Minister of Finance, to the Canadian Club of Toronto on January 4:*

...If we cast our minds back to the economic situation prevailing in the spring of 1963, you will recall there was some real cause for concern about the prospects. The recession of 1960 was more than two years behind us and, while production and incomes were still rising, the economy was not expanding at a rate commensurate with its real potentialities.

Business investment in new plant and equipment seemed to be levelling out; and, despite two years of economic expansion, unemployment still remained much too high. It was clear that something more should be done to stimulate the economy to the point where it would create many more new job opportunities to match the larger number of young people entering the labour force. Furthermore, it was glaringly apparent that certain regions of Canada, particularly the Atlantic Provinces and Eastern Quebec, were not participating adequately in the general expansion of our country; the high levels of unemployment in these areas could not be tolerated.

There were other problems, including the need to take steps that, over the long run, would reverse the trend towards an excessive dependence on foreign capital. But at the top of the list of immediate objectives was the need to stimulate a higher rate of economic growth. To achieve this, certain other objectives had to be sought. Among these I would mention: the maintenance of confidence in

our dollar, and in the soundness of the economic and financial climate generally; the achievement of a better balance in our international trade and payments; the encouragement of new capital investment in industry generally, especially in regions of slow economic growth; a further increase in the training and education of young men and women to fit them for the fast-changing requirements of the economy; the reduction of seasonal fluctuations in employment by encouraging more work in the winter season.

These goals called for expansionist economic policies. At the same time, it was important to move toward a balancing of the federal budget as conditions of high employment were achieved. Some improvements in the tax system had to be made to ensure that revenues would be adequate to meet requirements in periods of prosperity. To bring about the economic expansion and growth, it was necessary to make careful use of lending and expenditure powers.

### INDUSTRIAL INCENTIVE PROGRAMME

It followed that the major thrust of an expansive fiscal policy had to be carried by measures that would provide incentives for industrial expansion and by the use of new lending programmes and the liberalization of existing ones. The expansionist monetary and credit policies which the Bank of Canada has applied have made an important contribution towards the achievement of these purposes.

Considerable reliance has been placed on measures to encourage and stimulate business invest-

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ment in new plant and machinery. It is through such investment in modern productive facilities and the use of the best technology — along with good management — that we can best increase the efficiency of Canada's economy, raise our standards of living and create new jobs.

The last two budgets made provision for substantially increased capital-cost allowances on investment in new manufacturing and processing machinery and equipment. In addition, exemption from corporate income tax for three years, as well as faster "write-offs", were offered to new plants establishing in regions which have suffered from slow economic growth and high unemployment. These incentives constituted a very substantial inducement to new investment, which many industries have been quick to recognize.

#### BUSINESS RESPONSE

The response of business to these incentives has been most gratifying.

The promotion of economic expansion by means of new or expanded government lending programmes has operated mainly in the field of municipal construction and in housing. In June 1963, Parliament enacted a Municipal Development and Loan Act, which provided a fund of \$400 million for lending to municipalities across Canada. The purpose was to provide municipalities with the major part of the funds required to augment and accelerate their capital programmes. As an inducement to speedy action by the municipalities, the plan offered a government grant equal to 25 per cent of the amount lent on such projects or parts of projects as could be completed before April 1, 1966. The quantitative effect of this stimulus to municipal investment — not to speak of its indirect benefits — has been impressive.

Up to last December 15, 1,045 loans had been approved, covering projects in 710 municipalities, for a total loan amount of close to \$200 million. The total value of additional or accelerated works represented by these loans is about \$360 million.

#### HOUSING ACTIVITY

Another major activity which we have sought to stimulate over the last months is housing. House building involves a very large amount of employment in itself and responds quickly to changes in the terms on which it can be financed. In addition, the servicing of new subdivisions and the furnishing and equipping of new homes and apartments stimulates a multitude of other industries. Most of the benefits in terms of production and employment tend to remain in Canada instead of going abroad by way of increased imports.

The aim, therefore, has been to encourage a high level of residential construction during the last two years, and to concentrate a greater proportion of it in the winter months. The National Housing Act rate of interest has been reduced, and down-payments and other lending arrangements have been eased. Winter construction has been greatly stimulated by the payment of a \$500 bonus. And the Central Mortgage and Housing Corporation has been authorized to make direct loans to builders on a substantial scale to ensure that adequate financing was available during the winter period.

Largely as a result of these changes, housing starts in 1963 and 1964 have been extraordinarily high, increasing by 14 per cent in 1963 over the previous year, and then by about 10 per cent in 1964. The volume of construction and employment in this industry last winter and this winter has been beyond all expectations.

Economic growth and expansion require action and expenditure by the provinces and municipalities as well as by the Federal Government. The provinces in recent years have been facing serious financial problems as a result particularly of increased requirements for education, for roads and for health and welfare services. These problems have been eased by action taken by Parliament. In part this has been done by specialized programmes, such as those for vocational schools. In large part, it has been done by the more general means of improving the tax-sharing and equalization arrangements with provincial governments....

#### GNP INCREASE

When the books are closed and all the figures are assembled, I think we will see that for 1964 the gross national product should reach \$46.5 billion, about 8 per cent higher than the year before, or about 6 per cent after allowing for price increases. Employment is at an all-time high. Unemployment in mid-November was 4.3 per cent of the labour force (seasonally adjusted), the lowest it has been since May 1957. Average wages in industry in November 1964 were up 4.1 per cent over the previous year. The 16 per cent increase in investment forecast in mid-1964 looks as if it has been substantially achieved.

In the first ten months of 1964, merchandise exports were about 21 per cent higher than a year earlier, and, apart from wheat sales, which were heavily affected by the special sales to Russia, the increase was 17 per cent. Personal expenditures were some 17 per cent above the 1963 level, with this area of demand contributing one of the major factors behind the growth of the economy. Corporation profits for 1964 were at an all-time high.

Despite this expansion, the price level remained reasonably stable.

#### NO CAUSE FOR COMPLACENCY

1964 was the best year in Canada's history in terms of production, jobs, exports, living standards and technical progress. But there is no room for complacency. 1964 was not a fully satisfactory year in some important aspects. Our balance of payments on current account still shows a substantial deficit for 1964, despite our efforts to increase exports. Unemployment in many parts of the country — broadly speaking in the regions east of Three Rivers — was too high. Nevertheless, we have made considerable progress. We must do better in the years to come.

I make no claim, of course, that the achievements of the economy in 1964 were entirely the result of government measures. To say that would be foolish. We are predominantly a private-enterprise country (some people prefer the term "mixed enterprise economy"), and our economic expansion has been the result mainly of non-government investment, spending, building, exporting and so on.

## THE GOVERNMENT AT EXPO '67

The Canadian Government pavilion at Expo '67 in Montreal is designed to achieve a scale and quality suitable to Canada's role as host country, according to Trade and Commerce Minister Mitchell Sharp. At a press preview held in Ottawa to announce the preliminary plans for Canada's pavilion, the Minister said that it would be the largest and most ambitious contribution the country had ever made to a world exhibition.

The pavilion will cover eight acres, and its main building— which will look like an inverted pyramid — will rise 100 feet above Ile Notre-Dame, dominating the upstream end of Expo '67. The scale of the project is indicated by its cost — \$21 million.

### NEW DISPLAY TECHNIQUES

The Canadian pavilion will incorporate and further exploit new techniques that have radically changed the art of exhibition design. To walk through it will be to experience a series of dramatic exhibits. Where Canada's pavilion at Brussels in 1958 relied, like most others, on static exhibitions (pictures and three-dimensional displays), the 1967 pavilion will use a combination of multi-screen cinema, computers, working models of Canadian inventions, "wraparound" theatre, film-showing machines that operate like jukeboxes, and other devices still in the early planning stage.

A visitor to the Canadian pavilion will participate in the exhibits by playing games with machines, choosing which short films he wants to see, and directing the actions of models. He will be comfortably seated and carried through a series of film theatres showing the origins and history of Canada. All of these devices will be so arranged as to involve the visitor's mind and emotions in the material he sees.

The material itself will focus on the challenge, achievements, problems and possibilities of modern

### FEDERAL SCIENTIFIC EXPENDITURES

Total expenditures on scientific activities by the Federal Government are expected to reach \$334 million in the fiscal year 1964-65, an increase of 13 per cent over the \$297 million estimated for 1963-64; the latter is an increase of 16 per cent over the previous year, according to an advance release of data that will be contained in the 1962-63 Dominion Bureau of Statistics report "Federal Government Expenditures on Scientific Activities".

The largest Canadian scientific activity remains the conduct of research and development, which is expected to absorb about 63 per cent of all science funds in 1964-65. Capital expenditures made in connection with scientific activities are the next largest scientific cost. Expenditures on grants in aid of research and on scholarship and fellowship programmes have increased about fourfold since 1958. Grants in aid of research, which formerly consisted largely of grants for research in universities, now include sizeable grants for industrial research.

Canadian life and on Canada's place in the world. It will be conveyed entertainingly rather than solemnly. Each exhibit will be as attractive as it is informative.

### A REVOLUTIONARY THEATRE DESIGN

The pavilion's 550-seat theatre is designed in the shape of a pair of calipers. The audience will sit in the middle and the show will take place in front of it and on both sides. It has been planned with the advice of Jean Gascon of Le Théâtre du Nouveau Monde and James Donville of the National Theatre School. When Expo '67 closes, this one building will remain, as the permanent home of the National Theatre School of Canada.

The inside of the Expo main building will be open to the sun and the stars and its four slanting walls will hold massive exhibits centred on the Exposition's overall theme, "Man in World". Visitors will enter at the bottom and walk to the top through the exhibits and among gentle waterfalls. From the six-foot promenade at the top, they will have a magnificent view of the river, the port, the city, the mountain and the rest of Expo.

The section called "Our Way of Life" will bring together a stimulating collection of facts and ideas about Canada and convey them with a light touch. At the base of this section will be the instruments of "adult play" — computers that talk back, machines that tell jokes and sing songs, jukeboxes that show one-minute movies. Towering 78 feet above them will be a collection of hundreds of photographs of Canadians working and playing, strung along a plastic-and-steel construction resembling, in outline and colour, a gigantic maple tree in autumn colors. Visitors will walk up the tree on gangways, suspended by steel cables, to view the photographs.

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### CANADA TO ATTEND MANY FAIRS

The Department of Trade and Commerce has announced plans to participate in 72 international trade fairs during the next 18 months. The programme for the period January 1965 to June 1966 includes fairs in the United States, Britain, West Germany, Italy, France, Spain, the Netherlands, Japan and Lebanon.

Trade fairs have proved their value as means of introducing products to new markets at relatively low cost, of stimulating greater interest in established lines, and of providing contacts with potential agents and other buyers abroad. Last year more than 300 Canadian firms participated in the Department's programme, many reporting outstanding sales results.

### SUCCESSSES REPORTED

One firm, exhibiting at the Western Metal and Tool Exposition in Los Angeles, reported sales on the spot totalling \$250,000. Another exhibitor, who

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took part in the Marine Trades Exhibit and Conference in Chicago, sold \$50,000 worth of merchandise, and his 1965 sales in the U.S. are expected to increase by about 40 per cent over their 1963 level as a direct result of his participation.

These successes are among the many recorded by the Department of Trade and Commerce from the reports of firms ranging in size from small family businesses to large corporations. Although the products sold have been diverse, the increased sales were achieved by the use of the same sales-promotion technique — participation in a trade fair abroad.

**T & C ROLE**

At fairs in which the Canadian Government takes part, the Trade and Commerce Department bears the largest part of the expense and also assumes responsibility for the co-ordination, design, construction and general administration of exhibits. This enables participation by firms that might not be able to afford to exhibit independently, and greatly reduces the participation costs of companies exhibiting as a means of testing particular markets.

Increased interest in trade fairs gave rise to several occasions during 1963 and 1964 when the demand for exhibit space exceeded that available.

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**COMMONWEALTH ARTS FESTIVAL**

The Secretary of State for External Affairs, Mr. Paul Martin, has announced that the Government's invitation to take part in the Commonwealth Arts Festival has been accepted by the Toronto Symphony Orchestra, the Royal Winnipeg Ballet, Le Théâtre du Nouveau Monde and "Les Feux Follets".

It was announced on October 7 that the Canadian Government had accepted, in principle, an invitation from the Commonwealth Festival Society to participate in the Festival, which will be held in Britain from September 16 to October 2 this year.

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**CREDIT STATISTICS**

Balances outstanding on the books of sales-finance companies for both consumer and commercial goods, small-loan companies for cash loans, department stores, furniture and appliance stores, and chartered banks for personal loans were larger at the end of October 1964 than a year earlier. Balances outstanding on the books of small-loan companies for instalment credit were smaller.

Balances outstanding at the end of October, in millions, were: sales-finance companies for consumer goods, \$988 (\$876 a year earlier); sales-finance companies for commercial goods, \$579 (\$517); small-loan companies for cash loans, \$814 (\$731); small-loan companies for instalment credit, \$53 (\$55); department stores, \$442 (\$396); furniture and appliance stores, \$194 (\$191); and chartered banks for personal loans, \$2,280 (\$1,856).

**SEAWAY TRAFFIC IN 1964**

In spite of record low-water levels on the Great Lakes, the regular permissible draft of 25½ feet for ships continued in effect on the Seaway all season and traffic of 39,300,000 tons in 1964 topped the previous season's traffic by 27 per cent, Canada's St. Lawrence Seaway Authority announced recently.

As new records were set by the Seaway in its sixth year of operation, cargo traffic through the Welland Canal exceeded 51,300,000 tons, a rise of 24 per cent over that for 1963. The tonnage on the Welland for the 1964 season was nearly two and a half times that for 1958, the year before the Lake Ontario-Montreal section of the Seaway opened.

During the 1964 season, traffic on the Montreal-Lake Ontario section was nearly double that for the opening season in 1959, when 20,593,000 tons transited the waterway.

The growth of waterborne commerce following the opening of the Seaway can be illustrated by the fact that in 1964 over three times as much cargo moved through the new Seaway system as transited the former St. Lawrence canals the year before the Seaway opened.

Between Montreal and the Great Lakes, in 1964, ships carried over 3,600,000 tons of general cargo. Bulk cargo of some 35,600,000 tons included approximately 12,000,000 tons of iron ore, 9,000,000 tons of wheat and 6,000,000 tons of other grains.

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**RCN IN PACIFIC BLAST TESTS**

A destroyer escort of the Royal Canadian Navy will join operational surface ships of the United States Navy in blast tests in Hawaii this winter and spring, Canadian Forces Headquarters announced recently. The results of these tests will be used to improve the design of future warships and to determine the ability of today's ships to withstand nuclear attack.

HMCS "Fraser", of the Second Canadian Escort Squadron at Esquimalt, British Columbia, has been designated as the RCN test ship. She will be exposed to two of a series of three 500-ton TNT surface bursts off the southwest shore of Kahoolawe Island early this year. Each of these bursts will be similar to the one carried out at Suffield Experimental Station, Ralston, Alberta, in July 1964.

**NAVAL RECIPROCITY**

The Royal Canadian Navy and the Defence Research Board of Canada were invited to participate as an extension of the work carried out at Suffield and in return for the facilities made available to the United States agencies by the Defence Research Board during the Suffield experiment.

A team of officers from Canadian Forces Headquarters and scientists from Suffield Experimental Station will be in charge of the Canadian phase of the test.

The Hawaii tests will be a further means to improve the Royal Canadian Navy's nuclear defence capability, already among the best in the free world.

### MACDONALD BIRTHDAY CELEBRATED

Mr. George McIlraith, President of the Privy Council, announced recently on behalf of the Prime Minister that the Federal Government, on the occasion of the 150th anniversary of the birth of Canada's first Prime Minister, Sir John A. Macdonald, would contribute approximately \$100,000 to reconstruct the portico of the City Hall at Kingston, Ontario. The limestone-columned porch was demolished in 1958 after being condemned as unsafe. It will be reconstructed under the guidance of the Historic Sites Division of the Department of Northern Affairs and National Resources.

### SHORT-LIVED GLORY

In 1841, Kingston became the capital of the province of Canada (which consisted of Upper and Lower Canada), and the town hall was designed as the seat of government. But the capital was, however, moved to Montreal in 1843 before the building was completed. George Browne, a prominent Canadian architect of the time, designed it as a market building as well as a town hall, housing a post office, customs office, library, business and professional offices, and a saloon. Built in the neo-classical style popular at the time, the edifice was regarded as one of the finest municipal buildings of nineteenth-century Canada. Kingston's municipal offices have since expanded to occupy the whole building.

The portico, of local limestone, was 63 feet wide with four finely-turned columns 27 feet high supporting the carved overhead portion.

The body of Sir John A. Macdonald lay in state in the City Hall after his death in 1891. In June 1843, he had attended the cornerstone-laying ceremony as a Kingston alderman.

On January 11, Mr. McIlraith represented Prime Minister Pearson at a banquet commemorating the 150th anniversary of Sir John's birthday. The Honourable E.J. Benson, Minister of National Revenue, also represented the Federal Government on this occasion. Joint sponsors of the banquet were the Federal and Ontario Governments, Canada's Centennial Commission, the Kingston Historical Society and the City of Kingston.

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### CIVIL AVIATION

Canadian air carriers transported 3.0 percent more revenue passengers and 6.1 percent more revenue goods in 1963 than in the preceding year. The year's count of passengers was 5,427,344, compared to 5,268,799, while revenue goods weighed 125,529 tons as against 118,289. Revenue hours flown showed a slight increase, to 630,573 from 626,302, and revenue miles were up 30.3 per cent, to 102,564,907.

Both operating revenues and expenses of Canadian carriers reached new peaks in 1963. Revenues increased 8.5 per cent, to \$308,835,913, while expenses rose 6.1 per cent, to \$294,142,170. As a result, an operating increase of \$14,693,743 was reported. After deductions for income taxes and

other charges, there was a net income of \$1,390,060, compared to a deficit of \$4,597,327 for 1962.

Companies operating helicopters only reported an operating income of \$427,083, and a net income after provision for income taxes and other charges of \$518,473 in 1963, compared to an operating income of \$369,507 and a net income of \$283,401 in 1962.

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### A NEW YEAR'S LOOK AT CANADA'S FINANCIAL STATE (Continued from P. 2)

We are also an internationally-oriented economy, which responds - if we remain efficient and capable of responding - to the economic expansion of our trading partners. Fortunately, most of our principal trading partners, including the United States, have been showing considerable economic expansion in recent years. We must also recognize that the failure of grain harvests in Eastern Europe in 1962 and 1963, which gave rise to such massive purchases of Western grain from Canada, has been a great stimulus - albeit a temporary one - to the economy as a whole.

### ROLE OF GOVERNMENT

The Government's role - through its financial and economic policies - has been to set the scene so that private individuals and businesses can direct their efforts with the best chance of success. I believe we can draw encouragement from the fact that the overall performance of the Canadian economy during the last year, specifically the expansion from the third quarter of 1963 to the third quarter in 1964, has been appreciably better than that of the United States. For example, over this period, the gross national product in the United States rose by 7.0 per cent; in Canada, it rose by 8.5 per cent. Non-farm employment in the United States in November was 2.6 percent higher than it had been a year earlier; in Canada, 3.9 percent. I would not want to promise that economic expansion in Canada will continue to run ahead of the United States, but the record is encouraging.

I mentioned the importance we attributed in 1963 to maintaining confidence in the soundness of the economic and financial climate. And I mentioned the importance of moving in the direction of a balanced budget under conditions of high levels of employment. To some extent these objectives were complementary.

Experience on both counts has been satisfactory. The Canadian dollar has been stable and our reserves of gold and foreign exchange well maintained. And this despite the fact that the spreads between interest rates in Canada and the United States have been narrowing in the past two years.

### SMALLER BUDGET DEFICIT

Because of the improvement in economic conditions and the resulting buoyancy of government revenues, it is clear that the budget deficit for the current

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fiscal year which ends next March 31 will be much less than the \$455 million originally forecast. It will probably turn out to be somewhere between \$150 and \$200 million. This would be the best showing since the year ending March 31, 1958.

An accounting deficit at this level would be less than the amount by which the government contribution and interest credits to its employee-pension funds exceeds the benefits paid from such funds during the year. It is proper to record these charges as part of our current operating expenses during the year, because funds will be required in future to cover the pension liabilities now being incurred. But these charges are not cash outlays that have to be made this year, and we should only wish to increase our taxes to cover them under circumstances where we felt the state of the economy could withstand and justify the deflationary effects of such action.

This is just one example of why it is necessary to look behind and beyond the state of the public accounts to discern the influence of government transactions in terms of the national economic accounts. These accounts are prepared by the Bureau of Statistics and show gross national product, national income and the expenditures made by consumers, businesses and governments....

With the increase in revenues we have experienced this year, it is evident that there will be a substantial surplus in the Federal Government transactions as measured by the national economic accounts method. This will be the first time there has been a surplus according to this basis of accounting since the year ending 31 March, 1957.

**BUDGET UNDER CONTROL**

The facts and figures which I have cited, applicable to a year in which we still have more unemployment than we should have and in which we have an excessive margin of economic potential over our economic performance, show convincingly that our tax system now is strong enough to balance our budget and, indeed, to produce a surplus under conditions of full employment. They show that we have achieved our objective of moving in the direction of a balanced budget under conditions of high levels of employment. They demonstrate that the Government and Parliament, despite our manifold difficulties, have brought the budget under control.

The issue now is how the budget should be used in dealing with our fiscal and our economic problems in the coming year. In raising this question, I should point out that it is no more defensible to balance the budget in periods of inadequate growth and substantial unemployment than it would be to incur large deficits when the economy was operating at capacity. The question is what sort of economic conditions are likely to confront us in the year ahead....

First of all, there is a natural caution which manifests itself in any estimates about the future. At this time last year, for example, according to the conventional wisdom, a growth rate of 4 to 5 per cent was predicted for 1964. Even as late as mid-March, my official budget estimate was for an increase in the GNP of 5½ per cent. The result will be something of the order of 8 per cent, or nearly half as much again.

Now the conventional wisdom has it that the long upswing in production and employment that has been going on since early 1961 should continue well into 1965 and, it is hoped, throughout the year.

Preliminary forecasts of new capital investment by business are encouraging. On the other hand, in the absence of abnormal wheat sales to Russia and in the light of the difficulties facing Britain, we cannot expect a further growth in exports of the magnitude achieved in 1964. Indeed, with the growth in the economy generally that we can expect, we must anticipate an increase in imports and, as a natural consequence, probably some increase in the deficit on our balance of payments on current account.

However, we must also be conscious of the continuing rapid growth in Canada's labour force - of the large numbers of young Canadians coming to the age when they should, indeed when they must, have jobs. It is *their* duty, with the help of public and other educational authorities, to fit themselves for the kind of jobs that can be expected in the world of today and tomorrow, rather than the world of yesterday. But it is *our* duty to manage the economy so that the jobs - good productive jobs - will be there for them.

This means we must do everything we possibly can do to ensure a rapid and a sustained rate of growth of the Canadian economy this year and in the years that follow. This will call for expansionary policies - the continuation and enlargement of some present policies and the introduction of some new ones....

Canadian air carriers transport more revenue passengers and 0.1 percent more revenue loads in 1964 than in the preceding year. The year's count of passengers was 3,427,000, compared with 2,887,700 in the revenue goods weighed 1,252,000 tons, against 1,182,000. Revenue hours flown showed a slight increase to 630,573 from 628,302, and revenue miles flown to 303,300, from 297,400, a 2 percent increase. A