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STRENGTHENING CANADA'S INDEPENDENCE

Address by the Honourable Mitchell Sharp,
Minister of Finance, to the Association of
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As Minister of Finance, you would expect me, when speaking on the subject strengthening Canada's independence, to concentrate on the financial and economic aspects of this urgent task. I shall do so, but I'd like to set my comments in the wider cultural and political context - using "political" in its broad sense, not in its party sense! Indeed, how we Canadians address ourselves, as a society, to the difficult questions of fiscal and financial policy, of commercial policy, and of economic policy, is in large part a function of how our whole national society sees itself. I, for one, have never thought of these matters, for which I now have some responsibility as Minister, as mere technical questions, requiring for their solution only the supply of enough expertise. They go to the very heart of our nationhood.

Let me begin by stating an obvious but key fact about Canada's independence. We live in a world dominated by the changing relations between the two super-powers. How the two great centres of world power - the United States and the U.S.S.R. - react to each other, and how they each react to the emerging fact of China, sets limits to the scope of independent action of other nations. Even Japan, Britain and the major continental European countries - great powers by our standards - find their freedom of action sharply curtailed by the fact of super power.

If these great nations find that their room for independent action is defined and confined by the existence of two centres of world power, then surely we in Canada must accept that our independence is limited by the fact that both the two super-powers are there, and that they are our next-door neighbours.

A second key fact, which we ignore only at a high cost, is the fact of growing interdependence between nations and regions. The great force making for increased economic interdependence is technological change. The impact of technological change is virtually all in one direction - toward larger units of production, toward lower costs, and toward mass production. Articles that ten to 15 years ago were made for local markets, in small plants, are now made for mass markets, in perhaps only two or three plants on each continent. This is, on the one hand, the inevitable answer of industrial technology to changes in the demands of consumers and,

on the other, the creation of new demands by new technology. The fact that the new technology is much more capital intensive than the old is, of course, of great significance to a country such as Canada which imports a significant share of its capital for industrial expansion.

A third key fact is the fact of French-speaking Canada. How to make a new society in this country, a society in which French-Canadians can play their full part, is today Canada's greatest problem. It is also most certainly our greatest opportunity. The new idealism of Quebec can well be the decisive factor in the future of Canada, for without the full and enthusiastic participation in our national life of French-speaking Canadians, independence will not only be more difficult to defend but a good deal less meaningful. I am one of those who think that Canada without Quebec is not only unthinkable but likely to be very dull as well.

Trying to take account of these key facts, I should like to set out what I think are the main areas in which we can strengthen Canada's economic and financial independence. I suppose you might call this list a sort of "agenda for independence"; perhaps, if you like, it is a kind of economic manifesto.

A Strong and Growing Economy

The first thing we have to do, and to keep doing, is to maintain a high and stable level of employment, with rising personal incomes. That means we must maintain a high level of productivity. It means, too, that the full armory of powers, not only of the Federal Government but also of the provincial governments, must be deployed in the pursuit of policies of growth and of full and highly-productive employment.

This economic policy is a necessary condition or underpinning for any policy of independence, for many obvious reasons. I shall cite only two. First, I don't think that Canadian independence can be very meaningful or attractive to the unemployed or the under-employed.

Second, unless we can offer our trained and able people the chance to use their talents in Canada, many of them - certainly many of those who speak English - are likely to migrate to the United States. Ready access to the United States and familiarity with the opportunities there distinguishes Canadians from other people outside North America - and presents Canada with some of its special problems. If the disparity in incomes and in opportunities between Canada and the United States were to widen significantly, the attractions of remunerative and interesting employment in the United States would pull away some of our most able people.

A New Confidence

Of course, our most able and well-educated people don't stay in Canada only because they are well paid. They stay here because they find something special about Canada which they are not prepared to leave behind them. As I see it, it is the task of the

rising generation of Canadians to create a new confidence and a new sense of cultural and social identity in Canadians. Unless we achieve some success on this front - and I believe we are beginning to do so - the very real attractions of the vigorous society to the south of us may attract too many of our able people. Then the human resources and skills required to shape and direct a complex industrial economy will simply not be available to us in Canada.

In other words, we can't have financial and economic independence unless Canadians believe in Canada. That is why such matters as the financing of our universities, the encouragement of the arts through such instruments as the National Gallery, and the Canada Council, new buildings for music, theatre and the visual arts, the support and promotion of a vigorous national system of radio and television, are proper subjects of interest for a Minister of Finance.

A Strong Federal System

The third item on my agenda is the need to strengthen the Federal Government in the exercise of its constitutional responsibilities - responsibilities which cannot be devolved on other levels of government - and to strengthen the provincial governments so that they may carry out those tasks which only they can perform. This, as a proposition, is easy enough to state. But its working out involves all the complexities of our laws and government activities. It requires the exercise of great ingenuity and skilled judgment, at both the provincial-government level and the federal level.

A federation like ours is, by definition, a country difficult to govern from one centre. Otherwise it would have adopted or would adopt a unitary form of government. Yet it is imperative that, if all Canadian governments are going to carry out the assignments given to them by their voters, all will have to work, and work continually, at evolving solutions to the problems of sharing responsibility, and power, and money, as between the various levels of government..

More Canadian Capital

The next item on my agenda for independence has been brought into sharper focus by the experience of the last few years. One of the greatest threats to Canada's freedom of action and freedom of manoeuvre in the economic and financial spheres is our dependence on massive imports of foreign capital. Because we depend so largely on this inflow of capital from abroad, our economic development - and thus our personal incomes and our jobs - is vulnerable to any interruption in the supply of capital or to serious disturbance in the capital markets - most importantly in the capital markets of the United States. I believe that, for our own protection, we must endeavour to shape our policies so as to generate more of our capital requirements at home.

Looking beyond our own immediate concerns, Canada has a moral responsibility to the people of the developing countries to reduce our dependence on imported capital. We in Canada cannot go on indefinitely being such an important consumer of scarce capital from abroad.

Thus our obligation to the rest of the world, as well as a prudent concern to protect ourselves against interruptions in the supply of capital, require that we give top priority to generating more savings domestically, and to channelling them into investment here in Canada in productive enterprises.

I put it this way in my budget speech a few weeks ago: "This is not an immediate problem to be solved this year or next. It is a matter of developing a long-term balance-of-payments policy consistent with our international position as an open economy in an increasingly competitive world. Our basic approach is twofold: first, through industrial, commercial and manpower policies, to adapt the structure of the Canadian economy to exploit effectively the most rapidly growing markets at home and abroad; and second, to develop and encourage the growth and use of Canadian savings. Canadians should be prepared to forego some of the apparent advantages of immediate expenditures in order to invest in the expansion and productivity of their own economy."

We Must Know More

The next item on my agenda is closely related. I believe that, if we are to be reasonably independent, in any practical way, we must, as a nation, know more about the working of those large economic enterprises which dominate so many sectors of our economy but which are controlled by foreigners. The inescapable fact is that no other country has such a large proportion of its production in the hands of corporations that take direction from parent firms in other countries. Without denying for an instant the great contribution such firms have made and continue to make to our standard of living, I suggest that no responsible government can look at the present degree of non-resident control over our economy with any great feeling of confidence, far less complacency.

Part, though only a part, of this unease arises from the fact that so many large non-resident-controlled corporations in Canada are technically private companies enjoying the rights of privacy about their affairs. Therefore only the Dominion Statistician and the tax gatherer, with confidential figures from them, know anything about the dimensions and directions of their financial operations. The Government has now put before these companies a set of guide-lines for good corporate citizenship and we shall be asking that they provide us with certain financial and commercial information on a regular basis. I am pleased to see that this programme has been generally welcomed by the business community. However, given that so many of these firms are private companies, though certain government officials will know, the public still will not know as much as it should about how these guide-lines are followed.

We shall have to rely on a great deal of the good faith of these firms, until all important economic enterprises in Canada, whether they are private or public companies, provide to the community at large a proper disclosure of their financial structure and operating results.

This is something that not only governments need to know but also loyal oppositions, newspaper editors and even academic economists.

There are real legislative difficulties in this area, and perhaps these problems cannot be solved at the federal level alone. For my part, I can say that the Federal Government will be making renewed efforts to find a solution. I would put this problem fairly high on my list of practical priorities for independence.

There is, of course, not only the question of the proper conduct in Canada of subsidiaries of foreign-owned companies. I am even more interested in the retention and the establishment in Canada of Canadian-owned and controlled corporations, corporations which can compete at home and in world markets and which occasionally branch out into foreign markets through their own subsidiaries. If, as I have already pointed out, modern technology makes for bigness and mass markets, Canadians must strive to have their share of head offices. It is desirable, too, that companies who have their major production facilities in Canada should have their head offices in Canada. Unless these views are accepted in the Canadian business community, we shall have to accept the limitations that go with a branch-office economy, however much guide-lines or laws may help to "Canadianize" the operations of foreign subsidiaries in this country.

Our tax laws can be used for this purpose. By this I do not mean that foreign-owned enterprises should be taxed more heavily than Canadian-owned enterprises; the purpose is not to penalize or discourage enterprise because it originates outside Canada. For a country like Canada, with such a vast stake in non-discriminatory access to capital and to world markets, this would be shortsighted. On the other hand, I do not think that it is discriminatory to encourage Canadians to invest in Canadian enterprises and, in the forthcoming extensive review of our tax laws, we shall be examining whether more can reasonably be done in this direction.

Canada Development Corporation

The Canada Development Corporation, which is on the Parliamentary agenda, offers a vehicle for action in this area. I intend to bring the legislation to establish it before the House as soon as the Parliamentary timetable permits. In the meantime, we are looking closely at the form that this corporation should take. The Canada Development Corporation is primarily intended as a means of mobilizing savings for investment in Canadian enterprise and development. If it is to be fully effective, it should be more than just an investment fund which buys outstanding securities. It should be an active agent in the promotion of Canadian development and industrialization under Canadian control and management.

Like my predecessor in office, Mr. Gordon, I visualize the CDC as an independent body acting in the interest of its shareholders, its success being chiefly dependent upon the skill of its management. But I, for one, do not think that this conception is incompatible in any way with its role as an instrument for the promotion of Canadian economic independence.

The Canada Development Corporation is an attempt to mobilize a large block of Canadian savings for a definite purpose - that is, to enlarge and strengthen Canadian control of Canadian enterprise. It is not, of course, the only means to this end. I was interested in a proposal put forward recently for a consortium of Canadian pension funds to provide a large purchaser of important blocks of the stock of Canadian companies and a useful continuing stockholder role in corporation management. It is not for me, as Minister of Finance, to pass judgment on this proposal but it does point to the opportunity which exists for more effective mobilization and utilization of the savings now being generated in this country.

Canadian Financial Institutions

It is important, too, that we realize that there are certain key areas of our economy which must be controlled by Canadians. The first and most obvious example is that we must ensure that our major financial institutions, like our banks, insurance and trust companies, which play a vital role in mobilizing greater resources of Canadian capital, remain predominantly under Canadian control. Any government that allowed these institutions to drift out of Canadian control would be allowing Canadian independence to be weakened appreciably. To this I could add our railways, our airlines, and our major media of communications - radio, TV and newspapers.

An Industrial Development Policy

As a final, but by no means the least important item on my economic and financial "agenda for independence", I should put industrial development policy. And by industrial development policy I do not mean enticing potential investors into manufacturing in Canada every device required by Canadians. As a trading nation, we have had to learn that there are products which are better made by other countries.

Since the end of the Second World War, we have retreated from the nationalism which bedevilled all the industrialized nations in the 1930s. This is the kind of economic nationalism we must try to avoid in the future. Trade and payments have been liberalized and excessive protection has been cut away. If we are to be true nationalists today, we must think in terms of a different kind of economic nationalism, which seeks to strengthen Canada in the context of growing interdependence between the nations and our obvious interest in the expansion and liberalization of world trade. It is not inconsistent to be at once a nationalist and an internationalist.

What we have to do now in Canada is to develop a more selective policy of strengthening and developing those areas of production in which Canada has some real working advantage. This may mean abandoning some present production which is profitable in Canada only with the prop of exorbitant protection, while enabling our better industries to grow. But there are no easy answers in this area of policy. This Government has already demonstrated in one important area - in the Automotive Products Agreement with the United States - that, in co-operation with our trading partners, we can find ways of strengthening Canada efficiently and economically. You all know how many new plants are being built as a direct result of this agreement.

I should add in passing that this Automotive Agreement is a prime example of finding fruitful opportunities for development in the growing interdependence between nations of which I have been speaking. The great expansion that is now going on in the Canadian automotive industry arises directly out of an agreement between the Governments of Canada and the United States that promotes the integration of the North American automotive industry.

I am confident that there are other possibilities for restructuring of Canadian industry which could have a similarly beneficial effect upon efficiency and the trade balance. We are now examining these possibilities and they form part of my agenda for economic independence.

In particular, we shall want to ensure that those industries that exploit Canada's natural resources for export markets process their products to the furthest extent possible in Canada, on an efficient and profitable basis. Canadians should find it unacceptable if the directors of such industries choose to export our resource products in their cruder forms for processing abroad, when there is no longer economic justification for such a policy.

Non-Discrimination

There are some who contend that we should go so far as to contemplate a free-trade or customs union with the United States. I am not one of them, because I do not see how Canada could retain any meaningful degree of economic independence as junior partner in an exclusive arrangement on such broad lines with our great and friendly neighbour. That is why I prefer the non-discriminatory approach to trade that underlies the General Agreement on Tariffs and Trade.

That is my economic and financial agenda for strengthening Canada's independence. Some may argue that it is a short agenda. That may be, but it is an agenda of difficult and complex issues which will require hard work and a great deal of imagination to resolve.

There are probably no single solutions in these areas but rather complexes of solutions. We shall find that, as in all great endeavours, we are confined and limited by the world as it is, and by the legitimate interests and aspirations of others. But I believe the positive opportunities for a productive and rich independence for Canada are very real.

There is the possibility before us of creating here in the northern half of North America a society whose independence will be based on achievements (in particular, the achievement of creating a diversified, and modern and outward-looking society) rather than creating a narrow parochialism. That is, to my mind, the test which we have to apply to any particular proposal - does it strengthen Canadian independence by excluding and limiting others and denying fulfilment to ourselves? Or does it strengthen Canada by enriching the Canadian society positively - by taking a full and creative part in this changing and exciting world? That is the spirit in which I trust you will consider my programme for strengthening Canada's independence.

S/A