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BUDGET REINS TO BE TIGHTENED

In a recent statement to the House of Commons, Finance Minister Mitchell Sharp outlined Canada's economic position and said that the Government's aim was to reduce the budget deficit in the next fiscal year. "We shall aim to produce at least a balance on the Federal Government's revenues and expenditures in terms of our national economic accounts," Mr. Sharp said. "Such action is necessary to exercise the fiscal restraint on the economy required to check the inflationary price and cost increases now taking place."

Part of the Minister's speech follows:

...This problem of managing our prosperity and of dealing with the pockets of poverty that unfortunately still remain is a very difficult one. We have never encountered anything like this before, nor has any other country. We are moving out now onto unexplored territory. When I was in Rio, I discussed these problems with the ministers of finance of other similarly fortunate countries and I found they echoed my words.

This year our grain crop has fallen short of the bumper crops of recent years but is adequate to meet our export commitments and expected demands. Industrial production has increased moderately. Business investment expenditures in the second quarter of the year were down slightly, as expected, both on construction and equipment. Urban housing starts were high in May and June but, as is well known, declined in July and August. Consumer expenditures on durable goods increased strongly in the second quarter of the year. Our balance of payments and exchange position during the summer has remained relatively strong, reflecting the favourable influence of Expo and the centennial year on our tourist trade.

The total of all demands on the economy, including those of governments, has continued to increase just about as anticipated.

Total employment has increased modestly during the summer, and the seasonally adjusted figure of unemployment after reaching 4.4 per cent in June declined to 4.1 per cent in August. In the budget speech I indicated - I was very frank about it - that some temporary increase in unemployment was possible this year in view of our rapidly-growing labour force and the slower growth-rate this year in production. My predictions in this respect were mostly accurate except that I really expected that unemployment might rise even more than it has.

The undesirable rate of increases in prices and costs, to which I referred on June 1, has continued. The need for restraint has not lessened. I shall have more to say about this in a few minutes.

On the whole I should still expect the gross national product this year to increase by 7 per cent or a bit more, around the upper end of the range I mentioned in June. I said at the time that, if the figures were higher than 6 2/3 per cent, it would probably be accompanied by a further undesirable increase in prices, and that has proven to be the case.

CAPITAL MARKET

The most notable developments of recent months have probably been those in the capital market. Despite a continuing expansion in the money supply, rates of interest have increased further both in Canada and the United States. Indeed, this has been a world-wide experience....At Rio de Janeiro last week I found that these high interest rates were one of the main preoccupations of nearly all the many

ministers of finance attending the annual meeting of the International Monetary Fund. All of us agreed that never before had we been faced at one and the same time with easy money policies and high and rising interest rates. In the past we have associated high interest rates with tight money. Now, for the first time, we have high and rising interest rates associated with easy money.

In our own case, these high interest rates reflect the attitude of investors, on the one hand, and, on the other hand, the heavy demands in Canada for savings to finance housing, business investment and government requirements. They also necessarily reflect the high level of interest rates in the United States, where similar conditions prevail and from which country we must import hundreds of millions of dollars in borrowed capital. The relation between our interest rates and United States interest rates must be such as to attract into our country sufficient capital to make up the deficiency in our own savings.

The extraordinary condition of the capital markets is, I believe, influenced by three important factors. First, there is now unfortunately a widespread expectation of price increases continuing over a long period, which makes investors concerned about the real value of long-term bonds and leads them to demand higher yields in compensation. To remove this concern will require action that will dissipate this fear of inflation that overhangs the market. Second, there is an abnormal desire for liquidity, a preference by investors for holding highly liquid assets or short-term securities, and a desire by many businesses to have liquid assets so that they will be less dependent on borrowing in the future. Third, there appears to be a general expectation that the pace of economic expansion will quicken again before long and be reflected in continuing strong demands for capital....

All in all, we are making a successful transition from the high rate of expansion of the past year to the more sustainable rate of growth that is now beginning to emerge. This has really been quite a remarkable period. The situation has developed as it was forecast in the budget speech — namely, that we should move from a very, very rapid rate of expansion through a period of inventory adjustment and on to a more sustainable level. And I believe we are so moving.

It has been a really quite successful transition except for one thing, and that is that the rate of increase in costs and prices is still much too high. I feel that we must — and we shall — find some way to bring this inflationary movement under control — even if necessary, by letting the economy develop a little more slack for a year or two while price and cost increases taper off. We should certainly prefer to avoid the sacrifices of production and income which this would, of course, involve but, if we cannot collectively and individually exercise the restraint that is called for in wage and price increases in the present situation, then there would appear to be no escape from an essential cooling-off period....

...Restraint is needed on government expenditures. However, may I say, in order to clarify one point that always causes me some concern when I

read it in some of the comments made in the press, that I am not urging business to restrain its investment in productive equipment and in new buildings. I believe it is essential that business should go on expanding and increase its investment.

PRICE AND COST RESTRAINT

The kind of restraint that I am urging here is restraint in the field of prices and costs. This is where restraint is needed. Our objective is to have a steady expansion. The problem that we face, the problem the United States faces and the problem the Europeans face is, how do you combine prosperity with stability?...

On June 1, I forecast budgetary revenues, after the proposed tax changes, of \$8,960 million and budgetary expenditures of \$9,700 million for the current fiscal year. I now expect that because of rising costs and incomes both of these figures will be up by about 1.5 per cent, leaving the prospective deficit about the same. After reviewing the situation carefully I am now satisfied that the deficit this fiscal year will not exceed what I forecast in the budget and which I still believe is appropriate to an economy in process of transition from a period of too rapid expansion to one of a more sustainable growth-rate.

In June, I forecast our total net cash requirements for the current fiscal year at \$1,590 million. As usual, this forecast excluded any amount that was required to finance any changes in foreign exchange reserves after the budget date. I see no reason to expect any increase in our total cash requirements this fiscal year, a large part of which will be met by reducing our cash balances. I shall be endeavouring, of course, to reduce our cash requirements below that figure if I can in order to keep to a minimum our demands upon the capital market.

I should like to re-emphasize the two points I have made because I have seen references in the press and elsewhere to fears that the budgetary deficit this year is going to far exceed our estimates, or that our cash requirements are going to far exceed the figures I put forward in the budget speech. In fact, I am satisfied that we shall stay within those figures.

PLANNING AHEAD

Ordinarily the Government does not settle its future spending plans at this time of year. At present, the situation we face in the capital market and the widespread concern over Government expenditures require us to plan ahead as far as we can the general scale of our expenditures and revenues and our demands upon the capital market next year. The Government is now engaged in a special effort to limit the growth in its expenditures next year. Many of our large spending programmes are now related to the cost of provincial programmes which we support, notably hospital insurance, higher education, assistance to those in need and equalization payments to provincial governments. We must also stand ready to assume our obligations with respect to whatever decisions the provinces make on medicare plans that conform to our legislation. To all of these this Parliament has given a high priority.

CANADA'S 10,000-YEAR OLD PLANTS

Botanists of the National Museum of Canada have grown normal healthy plants from seeds believed to be 10,000 years old.

The seeds, Arctic lupines, were discovered in frozen soil in rodent burrows near Miller Creek, some 100 miles north of Dawson, Yukon Territory, by a mining engineer in 1954. Though unaware of their scientific significance, he kept the seeds in a dry place until a National Museum paleontologist, who learned of their existence in Dawson last year, brought them to Ottawa for study.

Dr. A.E. Porsild, a retired chief botanist of the Museum, and his colleagues believe these specimens to be the oldest living organisms in the world. They had lain dormant surrounded by frozen ground for more than 10,000 years, constant refrigeration and lack of oxygen having arrested all growth.

For the past year, the plants have been growing in a greenhouse at the Central Experimental Farm, Ottawa. One, which bloomed during the summer, had a blue spike. Seven of the original two dozen seeds unearthed have now germinated and resemble the modern lupine seen in gardens across the country.

ALOUETTE I FIVE YEARS OLD

Alouette I, Canada's topside-sounder satellite celebrated its fifth birthday in space last month with the completion of its 24,918th orbit of the earth. This remarkably successful spacecraft, the first to be designed and fabricated by a nation other than the U.S.S.R. and the U.S.A., is considered to be one of the most productive research satellites to have been launched by the Western world. For five years it has been looking down on the ionosphere, the electrically-charged curtain of electrons, ions and other gaseous components that exist above the earth and normally reflect radio waves.

The electronic observation by *Alouette I* of the ionosphere's composition and of the phenomena that take place there when solar activity creates disturbances, has resulted in 1,770,000 ionograms. Studied by upper-atmosphere specialists, these traces of events in the ionosphere have been processed from 11,249 miles of magnetic tapes that record scientific data telemetered from the satellite to receiving stations on earth. A quick-scanning technique makes it possible for the Defence Research Telecommunications Establishment in Ottawa and associated scientists to spot variations from the normal. Detailed studies of ionograms that indicate the unusual have resulted in expanded scientific understanding of the ionosphere and of its complexities. This information is important to Canada because the nation's vastness demands communications of a high order, particularly for the Armed Forces. Improved communications systems can only be developed following a thorough understanding of the electrically-charged curtain employed to reflect radio signals.

Alouette I has travelled 720 million miles since "liftoff", has executed 54,452 commands and has logged a total telemetry transmission-time of about 8,376 hours. The craft now operates for 2.5 hours a day from its virtually circular orbit about earth at altitudes varying from 616 to 642 statute miles. The travel-time for each orbit is 105.4 minutes.

Its successor, *Alouette II*, which is nearing its November 28 second birthday and is expected to match the success of its namesake, has already produced 595,050 ionograms.

A third DRB satellite, *Isis A*, weighing 485 pounds (165 pounds heavier than its predecessors) and carrying 11 experiments, will be launched next year.

CANADIAN EXHIBIT IN LIMA

Work is nearing completion on the Canadian pavilion being erected by the Department of Trade and Commerce on the site of the Pacific International Trade Fair in Lima, Peru. The pavilion will be ready for use during the entire fair, which will run from October 27 to November 12.

The new 2,000 square-metre building, designed by the Canadian Government Exhibition Commission, will mark Canada's return to the fair after an absence of six years. It will feature Canadian materials, including Douglas fir plywood box-beams and panels.

Canada's exhibit in 1967 will be five times larger than that of 1961. The pavilion will house displays by some 45 Canadian companies exhibiting products and services varying from fruits and poultry feed to domestic and industrial appliances and maintenance chemicals. Many displays of heavy hydraulic and electronic equipment will be included, as well as an exhibit by the Association of Consulting Engineers of Canada.

The adjoining circular tower, built of Canadian plywood panels laid vertically, will house an information exhibit on Canada.

CONSULATE IN DALLAS

Mr. Paul Martin, Secretary of State for External Affairs, announced recently that a Canadian Consulate had been opened in Dallas, Texas, on October 16, with Mr. C.M. Forsyth-Smith of the Trade Commissioner Service, Department of Trade and Commerce, as Consul and Trade Commissioner.

Besides providing consular services within the State of Texas, the new office will foster Canadian export interests in Texas, Oklahoma, Kansas, Arkansas and New Mexico. This territory, of vast export potential, has a population about the same as that of Canada. The annual value of manufacturing in these states is about \$10 billion, while retail sales exceed \$22 billion a year. The Dallas and Fort Worth region is the fourteenth largest metropolitan area in the United States.

BANK LOAN INTEREST SPELLED OUT

Since October 16, borrowers from Canadian banks have been told, in a simple and uniform way, the cost they are paying for their loans.

New regulations, which specify how banks must disclose the effective rate of costs of their lending was announced by the Department of Finance. The principle of interest disclosure was adopted by Parliament in amendments to the Bank Act and the Quebec Savings Bank Act earlier this year.

The change is designed primarily for borrowing by individuals and by small businesses, with the disclosure requirement applying to loans of up to \$25,000.

Finance Minister Sharp said that the requirement for disclosure of interest costs accorded with the move towards increased competition in banking brought about by the revision of the Bank Act this year. "This latest change will help consumers and other small borrowers to make meaningful comparisons of credit costs," he said. "This should strengthen their competitive position and make possible better informed borrowing decisions. Moreover, the comparison of lending costs will not be limited to the banking industry. As a result of close federal-provincial consultation during the past year, most provinces now have parallel legislation to apply to consumer lending within their jurisdiction."

Banks are required to disclose the cost of borrowing in writing when they enter into a contract with a borrower, either as part of the contract or in a statement given to the borrower. The same disclosure must be made in any bank advertisement which refers to the cost of its loans.

The borrowing costs to be included in computing the effective interest rate will include not only interest or discount charges but any other charges received by the bank from the borrower in connection with the loan.

NEW HISTORICAL MAP

A new map sheet, entitled *Territorial Evolution of Canada*, is expected to be one of the most popular historical publications of the Surveys and Mapping Branch of the Department of Energy, Mines and Resources.

Though the heaviest demand will probably come from schools, EMR's top cartographers believe that thousands of copies will be purchased by libraries, embassies, business corporations and government institutions both in Canada and abroad. The publication is also expected to appeal to the public at large as a souvenir of Canada's centennial year.

The full sheet, measuring 24 inches by 30 inches, is made up of 23 small-scale maps printed in 27 colours surrounded by a decorative border of maple leaves. The time-span covered by the maps is 282 years - from the political-territorial situation existing in North America in 1667, the year Acadia was recognized as a French possession by the Treaty of Breda, to that of Canada following the entry of Newfoundland into Confederation in 1949.

The other 21 maps, with detailed information printed below each, show the series of historic territorial boundary changes that gradually led to the present geographical shape of Canada.

Territorial Evolution of Canada was designed by Henry Mindak, the EMR cartographer who in 1964, compiled Canada's internationally-known multi-coloured *Map of the World*, which is now in its third, 1967 edition.

NORTHLAND FILMS PREMIÈRE

The national première of two new films of Canada's North was held recently in the theatre of the National Library in Ottawa, produced on behalf of the Department of Indian Affairs and Northern Development by the National Film Board. Both films, *The North Has Changed* and *The Accessible Arctic* were made for the purpose of further stimulating the exploration and development of the natural resources of the Yukon and the Northwest Territories.

Camera crews travelled thousands of miles throughout the North for nearly two years photographing suitable material.

Besides showing some magnificent scenery, *The North Has Changed* depicts the great strides made in overcoming the problems once encountered in extracting and transporting mineral and other non-renewable resources to world markets. It also tells of the successful developments and exploitation of natural resources in the Yukon and Northwest Territories, showing how resource-development incentive programmes of the Federal Government are applied from the exploratory stage to final production.

The Accessible Arctic shows the Canadian North as not only accessible but agreeable. This film, made to inform prospective workers or businessmen of the amenities of life in the Territories, shows the availability of schools, hospitals, shopping facilities and entertainment - the same amenities of life a person may expect in the larger centres elsewhere in Canada, with the exception of hunting and fishing, in which the Territories surpass the rest of the North American continent.

MARINE MEETING IN LONDON

Four representatives of the Department of Transport are in London, England, to attend the fifth Assembly of the Intergovernmental Maritime Consultative Organization, which began on October 17 and will continue until October 30. The organization, established in 1959, is the United Nations' Specialized Agency dealing with technical marine matters. Through it, international conventions are developed and kept up-to-date.

Among the items of business to be placed before the Assembly by the Canadian delegation will be a proposal that the Convention on the Safety of Life at Sea be amended so that any member country that has a marine traffic control network can require that the

ships of the other signatory countries be fitted with very high frequency (VHF) radio telephone equipment of a specified standard, for use in those waters on which marine traffic control is in effect.

Fire protection to be incorporated in the construction of new vessels, will be another major topic of discussion at the meetings.

EXPORT TARGET RAISED

In a recent address to the annual meeting of the Canadian Export Association, Trade Minister Robert Winters set a new target of \$12.3 billion for Canada's exports in 1968. He also predicted that the export target of \$11.25 billion for centennial year would be reached or passed.

"It was here, last year, that I set the 1967 centennial export target of \$11.25 billion," Mr. Winters reminded the meeting. "This ambitious target gave us something to set our sights for. How well have we succeeded?"

"The answer is, we are on course and closing in on target. Canada's exports in the first eight months of 1967 are up by \$865 million, or 13 per cent, from the same period a year ago," Mr. Winters reported. "Barring serious disruption of production of goods for export, we shall reach and exceed our \$11.25 billion objective," he declared.

Mr. Winters' forecast for 1968 included increased activity in major markets. He said that some Canadian exports (such as resource products, non-ferrous metals, energy materials, forest products and uranium) should record substantial gains, while other sectors (notably automotive products, wheat, and the tourist industry) might encounter a decline from the record foreign-exchange earnings of recent years.

"All in all," Mr. Winters announced, "it seems reasonable to set as a target for 1968 a further increase in the value of our export sales of just over \$1 billion, for a total target of \$12.3 billion." This, he said would entail sales averaging over \$1 billion a month, "an undreamed of amount only a few years ago".

KENNEDY ROUND BENEFITS

Mr. Winters described the Kennedy Round, which will go into force in 1968, as the biggest trade deal in Canada's history, with an enormous potential for Canada's future trade and prosperity. "True, access to our own market has been widened, meaning greater competition, but our tariff protection will in general still be significantly higher than that of the United States and the European countries with which we must compete," Mr. Winters said. Some adjustments by Canadian producers will be required and, in Mr. Winters' opinion, adjustment assistance, which is being considered, should be positively oriented.

"There must be exceptions to every rule," the Minister said, "but such a programme should not be to help continue making those things which Canada is not well suited to produce and which can be obtained more economically from our trading partners. Rather, it should assist companies to switch into lines where we are specialized or can specialize and be competitive here and elsewhere."

Beyond the Kennedy Round, Mr. Winters sketched the trade liberalization initiatives in which Canada was prepared to participate, which include: the progressive removal of non-tariff barriers to trade; the expansion of international commodity agreement; improved access for the exports of developing countries; ways and means of facilitating adjustments to changing trade patterns; the further lowering of tariffs; the amelioration of the effects of agricultural protectionism; and the establishment of an improved framework for multilateral trading relations between market and state-trade economies.

NEW PROGRAMMES

Mr. Winters also announced new programmes to assist Canadian exporters in their drive for foreign markets:

- (1) the setting of the 1968 export target;
- (2) the establishment of export councils by specialized trade and industry associations;
- (3) the extension of export credit insurance coverage to exports to the United States, as a normal rule, for the first time;
- (4) an overall review of export credits insurance services and capacities;
- (5) the opening of new trade commissioner posts in the United States and Eastern Europe;
- (6) the improvement of existing trade promotion services;
- (7) a design export group aimed at focusing attention on improved industrial design in Canadian exports; and
- (8) the reorganization of the Department further to streamline and improve the efficiency of its operations.

ICEBREAKER IN RESCUE ROLE

The Canadian Coast Guard icebreaker *John A. Macdonald*, which made history recently as the first large ship to navigate the Northwest Passage by way of Victoria Strait, is returning to her base at Dartmouth, Nova Scotia, via the Panama Canal, after having taken part in the release of an icebound U.S. Coast Guard vessel in the Western Arctic. The ship was ordered to the rescue of the United States Coast Guard icebreaker *Northwind*, which had been disabled and was trapped in the Polar ice-pack nearly 500 miles north of Point Barrow, Alaska.

Captain Paul Fournier, master of the *John A. Macdonald*, and his crew acted in support of the U.S. Coast Guard icebreaker *Staten Island*, which was sent from an Alaskan base to the aid of the *Northwind*. The *John A. Macdonald*, the larger and more powerful of the two, was allotted the task of forcing a passage through the ice, which at times was so heavy it seemed that the effort might have to be abandoned.

The Canadian vessel was engaged in this undertaking from September 25 to October 6, during which time ice conditions in the Northwest Passage worsened rapidly, resulting in the cancellation of the planned return through the Passage to the Eastern Arctic and the necessity of return home by way of Panama.

BUDGET REINS TO BE TIGHTENED

(Continued from P. 2)

Our public debt charges are increasing. The costs of our own operations increase as prices and wages increase and certain of the benefits we pay, such as veterans' disability pensions, must in all fairness be adjusted from time to time. Ever with no new programmes or major improvements, our expenditures must rise substantially and absorb most of the growth to be expected in our revenues. Yet a minimum of new programmes and projects is necessary if our policies and actions are to meet the needs of a changing economy.

We are determined in our present review to screen out obsolete expenditure programmes that cannot be justified in present circumstances. My colleague, the President of the Treasury Board, later in this debate will be talking about the efforts which have been made and the successes which have been achieved. We are determined to wield the knife on everything which we feel has low priority in whole or in part. We are making real progress, but we will continue to be engaged on this task for weeks to come before we present the Estimates to the House. Decisions already taken have required departments to postpone or eliminate many items that may be desirable but which must take second place to our other objectives. Already the Treasury Board has eliminated \$650 million from the total amount requested by departments and agencies, and that is not the end. The President of the Treasury Board is grateful to those ministers who are responsible for the spending departments for the co-operation they have extended to him....

REDUCING BUDGET DEFICIT

The Government's objective for the next fiscal year is to reduce the budget deficit substantially below the level of the current fiscal year. I am not talking about savings here; I am talking about our objectives in terms of budgetary policy. As I say, our objective is to reduce substantially the budget deficit in the coming fiscal year. From both a financial and an economic point of view, I believe this will be necessary next year unless there is a major change in the economic prospects for that year. We shall aim to produce at least a balance in the Federal Government's revenues and expenditures in terms of our national economic accounts. Such action is neces-

sary to exercise the fiscal restraint on the economy required to check the inflationary price and cost increases now taking place.

INDUSTRY CO-OPERATION SOUGHT

I doubt, however, that even the most determined action on the part of the Federal Government will be sufficient in itself to arrest the kinds of inflationary price and cost increases that are now taking place. I am confident that we shall be able to secure the co-operation of the provincial governments in a similar effort through the consultations that we have with them. I wish to remind the House that the scale of spending and the scale of borrowing of provincial and municipal governments has exceeded that of the Federal Government this year, and even more so in the past year. When we in the Government and Parliament of Canada have taken the fiscal actions that we should take, then I believe they should be supported by a determined campaign to achieve by voluntary action a large reduction in the rate at which prices and costs are increasing, including wage settlements. I know this will be extremely difficult in an economy like ours which is so exposed to external influences. In the meantime, I should hope that both industrial and labour groups would be considering and discussing among themselves and discussing with governments how best such a campaign might be organized to preserve Canada's competitive position in the world.

We must, of necessity, restrain our demands on the capital market. It is essential that we hold our Government borrowing requirements next year, apart from what may be needed from time to time for exchange purposes, to a total less than we are borrowing in this fiscal year. To accomplish this objective, it will be necessary to reduce some of our lending operations, such as those for housing loans of a type that could be financed in the market. Our specific plans in this respect will be worked out in the capital budgets of the various agencies involved. Our objective is clear and I am confident that it will be attained.

At present, the proper course remains to proceed with the tax measures I placed before the House in June. The removal of the sales tax on production machinery and equipment is an important measure to help achieve lower costs of production, and investment in such machinery and equipment is in fact a high priority objective. The removal of the sales tax on drugs does not involve a major loss of revenue and is part of a concerted plan to bring down the cost of drugs in Canada. It should go ahead now....
