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CONTENTS

Economic Plans for the New Year.....	1
India-Pakistan Agreement in Tashkent.....	3
Brief on Lower Taxes.....	3
Action for Young Canadians.....	3

Safe-Driving Week?.....	4
Electric Power in Canada.....	4
Skiing Survey.....	5
Tuna Plant for Canada.....	5

ECONOMIC PLANS FOR THE NEW YEAR

In a recent address, the Minister of Finance, Mr. Mitchell Sharp, outlined his conception of some of the responsibilities and objectives of his new portfolio. The following is a partial text of his remarks to the Canadian Club of Toronto:

...It used to be felt that the duty of the Minister of Finance was simply to find the money the Government must necessarily spend to discharge the duties which the constitution and the will of Parliament placed upon it. The classical test applied to his management was to balance the budget. Now we look further and deeper. Our task is to use the powers of Parliament and the Government — through budgeting expenditures and revenues and by legislation and its administration — to guide the economy along in the direction and at the speed that seems best calculated to achieve our economic goals. Those goals have been effectively summarized by the Economic Council of Canada at the beginning of its first annual review, as “full employment — a high rate of economic growth — reasonable stability of prices — a viable balance of payments — and an equitable distribution of rising incomes”.

ROLE OF THE MINISTER

But the role of Government and the Minister of Finance is not simply one of economic management. There are broader social objectives with which our economic goals must be reconciled and within which they must be achieved: to attain for all Canadians greater opportunities and greater equality of opportunity; to help the poor to overcome the disadvantages that tend so often to doom them and their children to continued poverty; to sustain those who are old or

sick or handicapped at standards that are in keeping with what Canadians regard as reasonable. While responsibility for pursuing these social objectives lies mainly with the provinces, the Government of Canada has a share of it. I personally fully support these objectives.

Nor are Canada's policies and moral obligations confined within our borders. Canada has, for the past generation with widespread support from its citizens, taken an active role in international affairs. In carrying forward this role we have used, not only the skill of our diplomats, but also some of our material resources to deal with the problems of substance in the international world. The largest requirement for resources has, of course, been in the field of defence. We must maintain a defence programme if we are to carry a fair share of the burden that falls upon the leading western nations and be taken seriously by our allies in our international role. Increasingly, however, we are also taking an active role in extending aid to the less-developed countries. We do this, not only for humanitarian reasons, but also because we believe that it will help in bringing about the kind of world in which our children and grandchildren can live in peace and prosperity. The Government plans a growing programme in this field of international aid, despite the increasing claim that this must put upon our resources in competition with our own requirements. I am confident that this policy will have the support of a vast majority of the Canadian people.

The Minister of Finance has another primary responsibility. That is to form judgments as to how much of the nation's resources can be devoted to the

various duties and purposes of the Government of Canada and what priorities should be given to them, taking into account all the interests and wishes of the Canadian people. He must form a view as to how these programmes of expenditures on the part of the Government of Canada can be fitted into the requirements of the private sector of the economy, to meet the demands of consumers and of business. He must take into account what the provinces and municipalities are doing and what they require. The Minister of Finance, along with the Prime Minister and others, must find some means to reconcile these various demands upon the resources of Canada and to do so by action that will ensure a productive, prosperous and growing economy in which proper priorities have been accorded to various economic and social objectives.

That is my concept of the role of the modern Minister of Finance. Now let me turn to consider briefly some of the major problems to which it must be applied in 1966.

AGENDA FOR '66

We can reasonably expect another year of high employment, production and income in 1966. The expansion in real terms in 1966, compared to 1965, cannot be as great as it was in the preceding two years because we are now closer to the physical limits of our capacity. Given a labour force growing at a rate of roughly 3 per cent, and a greater increase in productivity than has occurred recently, it should, I think, be possible for Canada to produce perhaps 5 percent more in real goods and services. We cannot reasonably, of course, count on another bumper crop.

Our major problem this year seems likely to be to restrain the economy from trying to expand more rapidly than is physically possible. Too rapid an expansion in expenditures, private and public, would contribute to inflationary conditions and lead in due course to a frustrating recession.

The expansion will be restrained somewhat by the payment of contributions to the Canada and Quebec pension plans. Yet, even after taking this into account, it looks as if total expenditures will be at least high enough to sustain a good rate of growth in our production, and perhaps so high as to put undesirable pressure upon our capacity to produce, and on prices.

That being so, I believe it is desirable that the Federal Government should continue the policy of postponing such expenditures as we can, particularly on public construction projects and programmes until after 1966, except in certain areas of higher than average unemployment. In order to harmonize federal and provincial policies in this field, I have expressed this view to the provincial ministers of finance and treasurers and discussed the situation with them....

BUDGET SITUATION

Our budget position in this current fiscal year has been better than the Honourable Walter Gordon was able to anticipate at the time of his budget speech last April. The strong economic expansion has increased our revenues \$200 million above the budget

forecast, which will probably leave a deficit in the traditional sense of less than \$100 million. In terms of its impact on the economy, as shown in the national economic accounts, we should expect to show a surplus of perhaps about a third of a billion.

You will not expect me to be at all specific about the next fiscal year as the budgetary position will depend in large measure upon decisions that have not as yet been taken. However, there are certain factors that are already clear. Federal expenditures will be up substantially, in part, because of the built-in growth in some items and in part reflecting new measures already announced. We are being pressed to undertake additional financial support for the universities, the importance of which is widely recognized. On the other hand, our present tax law includes a provision to divert an additional part of the personal income tax to provincial governments, starting today, and it also provides for the tax cut of last July to be in effect for a full year. We will also lose some revenue because the contributions to the Canada and Quebec pension plans will be deductible from taxable income....

BANKING LEGISLATION

Quite apart from the budget, there will be a substantial amount of financial legislation this year. The centre-piece, of course, will be the banking legislation, which includes both the revision of the Bank Act and the amendments to the Bank of Canada Act, as well as other statutes. I am reviewing now, in the light of events and developments of the past year, what was put before the House last spring. I do not propose to make any comment on the substance of this legislation before presenting it to the House, except to say that there will be some changes. My own opinion is that our legislation should go as far as is practicable to strengthen public confidence in our financial institutions and to promote competition among them for the benefit of the public at large.

INTERNATIONAL MATTERS

As Minister of Trade and Commerce, I was primarily concerned with our export problems and policies. Now, as Minister of Finance, I must turn my attention more directly to problems relating to tariffs and imports. This will be the crucial year in the negotiations in GATT of the "Kennedy round" of tariff reductions and reductions in other barriers to trade. We shall be playing our full part. We shall also have to continue to deal with the important problems of adjustment to what have come to be called "low-cost imports", and the avoidance of market disruption. My general views on trade policy are well known, and I should not expect to change them as a result of a change in portfolio. I have no doubt, however, that I shall have a different set of problems brought vividly to my attention.

As to our balance of payments, I need hardly remind you that Canada has had large deficits on its current account in its balance of international payments in most years over the past decade, relieved only in part by the large sales of grain to Russia and China since 1963. We have been able to improve our situation with the help of the change in our exchange

INDIA-PAKISTAN AGREEMENT IN TASHKENT

The Acting Prime Minister, Mr. Paul Martin, recently released the texts of the following messages sent to President Ayub Khan of Pakistan, and Acting Prime Minister Nanda of India:

MESSAGE TO PAKISTAN PRESIDENT

It is gratifying for Canada and all friends of India and Pakistan to see the hopeful new course pointed out for their relations at the Tashkent meeting. The agreement signed in Tashkent marks a turning point which all men of goodwill must welcome; its implementation will place relations between India and Pakistan on the difficult road to improvement. Because of Canada's association with the United Nations' observer operations we particularly welcome the agreement on the withdrawal of armed personnel.

Despite the untimely death of Prime Minister Shastri, I would hope that the two governments will proceed resolutely to implement the Tashkent Agree-

ments. I wish you every success in this high endeavour.

MESSAGE TO INDIAN PRIME MINISTER

It is gratifying for Canada, and all friends of India and Pakistan, to see the hopeful new course pointed out for their relations at the Tashkent meeting. The agreement signed in Tashkent marks a turning point which all men of goodwill must welcome; its implementation will place relations between India and Pakistan on the difficult road to improvement. Because of Canada's association with the United Nations' observer operations we particularly welcome the agreement on the withdrawal of armed personnel.

We can conceive of no more fitting memorial to Prime Minister Shastri, who was a man of peace, than an edifice of peaceful relations with Pakistan, erected by the Indian Government on the foundation he laid at Tashkent.

BRIEF ON LOWER TAXES

The Canadian Manufacturers' Association, in a brief recently presented to the Government, urged repeal of the 11 percent sales tax on production machinery and apparatus. "Not only should production equipment be exempt from sales tax but the exemption should be extended to include all articles and materials which enter into the cost of manufacture or production of goods", CMA delegates told Finance Minister Sharp and several of his Cabinet colleagues at a special Ottawa hearing.

In support of its argument, the Association quoted from the first annual review of the Economic Council of Canada, which stated that federal tax policy "must be vitally concerned with the impact of the tax system on the competitive position of Canadian producers".

The CMA delegation that presented the brief also asked that action be taken to reduce the top level of corporation income tax from 50 per cent to 48 per cent to bring it down to the United States' level. "Although a tax reduction of this nature involves immediate loss of revenue," the brief suggested, "it is reasonable to expect that over a period of time the deficiency should be made up by the resultant expansion of Canadian industry".

INCENTIVE GRANTS

Association spokesmen recommended that the tax reduction in personal income taxes effected last year should be applied to each of the rates applicable to individuals, and the present maximum reduction of \$600 a year be eliminated. The present level of personal income tax in Canada, they argued, encouraged the emigration of many of Canada's most highly-trained persons, professionals and technicians alike.

Incentives designed to encourage individuals and corporations to carry out measures in the national interest should take the form of incentive grants rather than income-tax incentives, the brief declared.

Thus, it continued, the new grants for industries locating or expanding in designated areas and the proposed new incentive grants for scientific research and development were considered more desirable than the former designated-area tax incentive and the current scientific-research tax incentive, since they provided encouragement to more companies and do not create situations involving tax discriminations.

The Association again went on record as fully supporting the efforts being made in the current "Kennedy round" negotiations in Geneva to expand international trade.

ACTION FOR YOUNG CANADIANS

The Acting Prime Minister, Mr. Paul Martin, recently announced that the Government had finished its examination of the report of the organizing committee of the Company of Young Canadians and had reached conclusions on the main lines of its structure and programme. These, he said, would be embodied in legislation the Government proposed to place before Parliament at its forthcoming session.

PILOT PROJECT

In general terms, Mr. Martin explained, the Government was anxious to see an independent Company of Young Canadians run by a board chosen largely by members of the Company themselves. It would be an organization run both for and by young Canadians. Pending the introduction of legislation, the Acting Prime Minister announced that the Government had authorized a pilot project of about 250 volunteers to serve in Canada, beginning this summer. Most of the volunteers would be employed by the Federal Government and provincial governments, as well as private agencies. A call would be issued soon for volunteers willing to serve for two years.

Though there have been many informal discussions about possible programmes for this project, no decisions will be made for some time about the precise tasks the volunteers will undertake. It is expected that much of the work will concern community development in the countryside and in cities, as well as on Indian reserves and among Eskimos.

SAFE-DRIVING WEEK?

The worst record of road deaths in the ten-year history of "Safe-Driving Week" was established in 1965. The day following the end of the campaign, the Canadian Press reported 76 dead on the streets and highways of Canada between December 1 and 7.

The previous record was set in 1962, when 70 persons were killed. The average "Safe-Driving Week" death toll is 58. The Canadian Highway Safety Council declared: "It is possible to reduce the death toll to fewer than 50 for this special week". But the motorists and pedestrians differed.

In contrast, 33 Canadian cities with populations exceeding 40,000 merited the Governor-General's commendation certificate by completing "Safe-Driving Week" with no deaths on their streets.

ELECTRIC POWER IN CANADA

National Resources Minister Arthur Laing announced recently that electric generating capacity in Canada had increased in 1965 by a total of 2,243,000 kilowatts, of which 1,434,000 was produced by water power and 809,000 thermally.

This figure is almost triple the 754,000 kw. installed in 1964, and exceeds the total for any previous year except 1959, when nearly 2,500,000 kw. of capacity was used. The capacity in 1965 raised the generating capacity to 29.4 million kilowatts, consisting of 21.8 million kilowatts hydro and 7.6 million kilowatts thermal.

Almost 1.8 million kilowatts of new generating capacity during 1966 will be operating, 883,000 kw. in hydro plants and 875,000 kw. in thermal plants. Under construction or planned are 16.4 million kilowatts of new generating capacity, consisting of 9.6 million kilowatts hydro and 6.8 million kilowatts thermal. The total scheduled for the future, however, does not include any of the vast water power potential that may be developed eventually on the Churchill River, Labrador, the Nelson River, Manitoba or the Columbia River, British Columbia.

HYDRO-ELECTRIC PROJECTS

The total of 1,434,000 kw. of hydro capacity installed in 1965, was a fivefold increase over the installation in 1964. Several units scheduled for service in 1964 were not brought into operation until 1965, which partly accounted for the large difference in the two years. Capacity to be installed in 1966 will be about 883,000 kw., equalling the average for the past two years.

The larger hydro projects, under construction in 1965, were the Portage Mountain development on the Peace River in British Columbia and the giant

Manicouagan-Outardes hydro complex in Quebec. However, important hydro developments were under construction in almost every province and in the Northwest Territories.

THERMAL-ELECTRIC PROJECTS

During 1965, a total of 809,000 kw. of conventional thermal generating capacity was brought into service. This is a greater increase in installed thermal capacity than in any previous year and points up the growing dependence upon thermal-electric power in Canada. Moreover, a greater increase is expected in 1966 when 875,000 kw. of new capacity will be completed. Of the latter total, 200,000 kw. will be nuclear-electric.

CONVENTIONAL THERMAL STATIONS

The 300,000-kw. steam unit installed in the Lakeview generating station near Toronto, Ontario, was the most significant single increase in 1965. Lakeview's ultimate capacity of 2,400,000 kw. will be realized by 1968 when its present capacity will be doubled.

Single 150,000 kw. units were installed, during 1965, in the Burrard steam plant near Vancouver, British Columbia, and the Tracy steam plant near Sorel, Quebec, raising the capacity of the former to 450,000 kw. and of the latter to 300,000 kw. The ultimate capacity at Burrard will be 900,000 kw., and at Tracy, 600,000 kw.

A single-unit, 100,000-kw. thermal plant was placed in service in 1965 at Tufts Cove, Nova Scotia. This is the first unit in a development which may eventually have a capacity exceeding 500,000 kw.

Of importance to anticipated electric power demands in Ontario is the Lambton thermal station, under construction near Sarnia. Four 500,000-kw. units are scheduled for installation, one unit in each year from 1968 to 1971. These will be the largest units in operation in Canada until 1970, when they will be surpassed in size by those being installed at the Pickering Nuclear Station in Southern Ontario.

NUCLEAR THERMAL STATIONS

Canada has acquired a considerable reputation for research in nuclear-reactor design and in the application of nuclear energy to the production of electric power. Canada's first nuclear-electric development was the 20,000-kw. Nuclear Power Demonstration station (NPD) which went into service in 1962 at Rolphton, Ontario. Operation of this station for three years has demonstrated the soundness of its design and has established confidence in the Canadian type of nuclear-power reactor. Similar in design to the NPD development is Canada's first full-scale nuclear-power station at Douglas Point on the eastern shore of Lake Huron, which will go into operation in mid-1966 with a single 200,000-kw. unit. Preparation of the site for the Pickering Nuclear-Electric Station on the shore of Lake Ontario, just east of Toronto, is now under way. This project will consist initially of two 540,000-kw. units, one to be ready for operation in 1970, and the other in 1971. These are the first of many nuclear-electric stations that will contribute increasing amounts of electric power to supply expanding markets.

(Continued on P. 5)

COLUMBIA RIVER DEVELOPMENT

Ratification by Canada of the Columbia River Treaty in September 1964, cleared the way for development of the Columbia River in Canada. Under the Treaty, Canada is required to build the Duncan Lake, Arrow and Mica storage dams on the Canadian portion of the river system. In return, Canada is reimbursed by the United States commensurate with the benefits of flow regulation and flood damage prevention accruing to the United States from the operation of these dams. Construction of Duncan Lake and Arrow dams is proceeding satisfactorily and it is anticipated that they will be completed before the scheduled dates of 1968 and 1969. Mica dam, the largest and most costly of the three, is scheduled for completion early in 1973. Completion of the storage reservoirs in Canada will facilitate "at-site" development of several million kilowatts of hydro-electric capacity in the Canadian portion of the basin.

SKIING SURVEY

A Vancouver research firm is studying the vicinity of Whitehorn-Temple near Lake Louise, Banff National Park, Alberta, as a potential area for skiing. The survey follows a study made last year of the area's physical potential, which suggested designs for new skiing developments, including lifts, accommodation and other facilities.

Last winter 43,025 skiers visited the Lake Louise area, 33,218 of whom used the sedan lift and two poma lifts at Whitehorn, while 9,807 used two poma lifts at Temple Lodge.

A new visitors' centre, to include a commercial core and about 1,200 accommodation units, is being developed at lower Lake Louise, and proposals as a result of a recent call for tenders for the first of five hotel-motel developments, are under consideration. This development will help in accommodation for both summer and winter activities at Lake Louise.

TUNA PLANT FOR CANADA

Ground was broken recently for Canada's first fully-integrated tuna-fishing and canning plant in Charlotte County, New Brunswick. The plant and the vessels to supply it are being built by the Canadian Tuna Corporation (1965) Limited, a subsidiary of Atlantic Sugar Refineries Company, Limited.

The total cost of the plant and equipment will be approximately \$1,500,000, and tenders have been called for the construction of three combination trawler purse-seiner tuna vessels, which will cost about \$6 million.

LATEST EQUIPMENT

Designed solely for processing and canning tuna, the plant will include the latest in equipment and facilities. It will have 60,000 square feet of space to handle 20 million pounds of tuna annually, and will process 100,000 cans a day. The cost of plant and equipment will amount to about \$1,500,000. It is

expected that 200 men and women from the surrounding area will be employed; the payroll, including ships' crews, is expected to be more than \$1 million a year. The target date for the plant to be in operation is December.

BIGGEST SHIPS OF TYPE

The tuna vessels will be the largest of their kind in North America. Each will have a payload of 1,000 tons and each will be fitted with a purse-seine net 4,000 feet long and 400 feet deep. The weight of the nylon used in each net will be about 36 tons.

The new ships will be capable of fishing anywhere in the world and will operate for eight months of the year, in southern Pacific waters, which are among the world's best tuna-fishing areas. Through the Panama Canal, these fishing grounds are actually 300 miles closer to St. Stephen than to Los Angeles. For the other four months of the year, the fleet will fish the North and South Atlantic.

ECONOMIC PLANS FOR THE NEW YEAR

(Continued from P. 2)

rate that took place in 1961 and 1962, and — given the relative stability in our costs and prices — with the increasing productivity and competitiveness of Canadian industry. We have enjoyed favourable export markets and Canadians have made vigorous efforts to cultivate them. We continue, however, to have a large balance-of-payments deficit on current account — something of the order of \$1 billion in 1965, and it will probably be slightly more rather than slightly less, during the year ahead. This deficit requires that we secure a correspondingly large import of capital to finance it, year after year. We are fortunate indeed that our credit is good and we enjoy the confidence of investors in other countries as well as in Canada. A major responsibility of the Minister of Finance is to maintain the confidence of investors in Canada and in its ability to manage its affairs.

I am glad that, as Acting Minister of Finance during recent weeks, I have been able to work out arrangements with the United States to ensure that its own measures to protect its balance of payments do not prevent Canada having unrestricted access to the United States long-term capital market for the funds it needs to finance the deficit on its current account balance of payments. Access to the U.S. capital market is of vital importance to us. There is a danger, however, in too great a dependence on a large inflow of capital. I share the view of my predecessor...that Canadians should finance more of Canada's economic development themselves and that we should aim at a better balance in our current international payments. We must recognize, however, that, if Canada is to grow and develop in a satisfactory way, without large net imports of capital each year, we shall have to save more ourselves and forego some of the advantages of spending now.

FEDERAL-PROVINCIAL ARRANGEMENTS

Of all the responsibilities of the Minister of Finance in this coming year, I believe the most important are those relating to the new financial arrangements required with the provincial governments to replace those expiring early next year. Profound changes have been taking place in federal-provincial relations in recent years, partly the product of the growing activity and financial burdens of the provincial governments and partly the product of Canada's search for a new harmony between the French and English speaking parts of our nation. In so far as it lies within my power, we will approach the task of improving our arrangements and relations with the provinces with a full recognition of the responsibilities of the provincial governments and of the role that they can and should play under our constitution and traditions. At the same time, I proceed from the assumption that the Government of Canada must be in a position to lead and to play a unifying role in our federation, as well as to discharge the responsibilities placed upon the federal authority by our constitution.

There are three central problems to be dealt with in federal-provincial arrangements. One is what has come to be known as tax-sharing. It would be premature to discuss this before we receive the report of our Royal Commission on Taxation and before Ontario and Quebec receive the reports from theirs. It is already evident, however, that the plans of the Government of Canada require expenditures on a scale that will not decline in proportion to our gross national product even though we succeed in sustaining a satisfactory rate of economic growth. On the other hand, if recent trends continue, the requirements of the provincial governments and the municipalities for revenue are likely to increase as a proportion of the gross national product. Under these circumstances the search for an equitable and economically efficient sharing of the various tax fields is not likely to be easy.

The second problem is related to the first. We already have a system of equalization grants to assist the less-favoured provinces to provide a reasonable standard of basic services. The formula used in determining these grants has evolved over the past 25 years, beginning with the wartime tax rental agreements. We are engaged now in re-examining it and look forward to discussions with

the provinces to see whether, on the basis of sound principles, we can develop a more equitable arrangement that will take into account a wider concept of fiscal capacity.

Our third problem is to work out a policy and understanding concerning what we now call shared-cost programmes - basically the payment of federal grants to provincial government programmes have been developed over the past 30-odd years. Individually, each one has, no doubt, been useful and has been a means by which the Government and Parliament of Canada have been able to encourage and assist the provinces to develop important programmes. Though these programmes have usually related to subjects within provincial jurisdiction, they have been directed to purposes that were national in their importance.

Taken all together, however, these shared-cost programmes now cover a significant proportion of the activities and expenditures of provincial governments. So important have they become in total, that some provincial governments are now concerned over the degree to which their activities are influenced and guided by federal action and by conditions attached by Parliament or the Federal Government to the use of monies paid over to them. Some provinces feel this concern more than others; the Province of Quebec in particular, has felt that the proliferation of such programmes has led to an intrusion by the Government of Canada into responsibilities that are rightfully those of the provinces. It was this position which led to the contracting-out legislation of last year. It is this position of the Government of Quebec that Premier Lesage has recently reiterated.

I am one of those who believes that the Government of Canada has a responsibility to provide national leadership, not only by exercising its own powers, but also by encouraging provincial governments to develop programmes of national importance. I believe this to be consistent with the spirit of the constitution, and necessary if Canadians are to achieve their national purposes. Such leadership, however, can only be effective if it is combined with respect for provincial responsibilities and judgment on matters within their jurisdiction. We must ensure that the instruments are available by which the Federal Government can promote national objectives without pre-empting provincial responsibilities....

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