



# STATEMENTS AND SPEECHES

INFORMATION DIVISION  
DEPARTMENT OF EXTERNAL AFFAIRS  
OTTAWA - CANADA

No. 71/19

## AN OECD IMPERATIVE: CONSULTATION AND CO-OPERATION

A Statement by the Secretary of State for External Affairs, the Honourable Mitchell Sharp, on June 8, 1971, to the OECD Ministerial Meeting in Paris.

We meet at a time of considerable economic difficulty for many, if not most, of the members of our Organization. Problems of unemployment and inflation continue to plague us. The recent crisis in the international monetary system and its longer-term implications call for study and action by member governments if we are to bring about greater stability in the financial environment. Seeking solutions for continuing difficulties and new problems is the first responsibility of the OECD (Organization for Economic Co-operation and Development), and it has shown itself capable of doing so. Canada gives its full support to the aims and activities of the Organization and will continue to contribute to the efforts of the various committees and working parties active within the broad context of economic policies and prospects. I am very interested in the report the Secretary-General circulated to us on environment policies. Nowhere are the complexities of modern industrial societies more apparent, and more fundamentally important, than in this general context of "quality of life". We fully support the work of the OECD on environmental problems. In particular, we believe that continuing investigations on the basis of sectors such as air and water management, urban management and unintended occurrence of chemicals in the environment are essential underpinnings to the wider task of apprehending environmental problems in an economic and trade context. Some of the work being undertaken on an ad hoc basis, such as that on pollution by the pulp-and-paper industry, is, I need hardly remind you, of particular interest to Canada. The rectoral groups are in themselves "early warning systems", which can identify the problem areas that need urgent and concerted attention.

The same can be said of the procedure for notification and consultation on measures for control of substances affecting man and his environment, which can perhaps be expanded and broadened in the future as the Organization develops further experience in such matters.

We find in the documents before us that the rate of growth in the OECD areas as a whole in 1970, at 2.5 per cent, was only one-half of the 1969 rate and of the average in the Sixties. The 4 percent forecast for the current year is a more acceptable rate of growth, and will bring our collective output closer to the objectives of this Organization and its members. While the revival of the

U.S. economy, stimulated by its expansionary policies, is the greatest factor in this collective growth, the Canadian economy was already responding in the final quarter of 1970 to new programs introduced in June. In December, further measures were put into effect to step up manpower programs and encourage regional growth. These measures include spending, and inevitably give rise to significant fiscal deficits.

Canadian monetary policy has also been expansionary. The bank-rate has been reduced in a series of steps from 8 per cent last July to the present rate of 5.25 per cent, accompanied by a faster rate of increase in the money supply and an overall decline in interest rates. These measures, together with the recovery in the U.S.A., are having a significant impact on the rate of growth in Canada. We expect that this year the increase in our gross national product (GNP) will be more than 5 per cent, as against 3.3 per cent in 1970.

Difficult problems of unemployment facing a number of member countries are compounded in Canada by the very high rate of growth of our labour force. Regional differentials in unemployment and the high cost of mobility of the labour force in our vast country add to the problems. This means that our internal policies must be designed to meet the special needs of relatively disadvantaged areas and the same time provide adequate job opportunities for the country as a whole. Better mobility in the labour force can help but cannot in itself provide a total or lasting solution to the basic problem.

The expansionary measures I outlined are bringing about a general improvement in the employment situation. The seasonally-adjusted unemployment rate decreased from 6.6 per cent at the end of 1970 to 6.0 per cent at the end of the first quarter of this year, despite one of those unusually severe winters that can have a major impact on employment in Canada. We are confident that this trend will continue throughout 1971 as our programs become fully effective, although we did encounter an apparent set-back in the unemployment figures for April.

Inflation continues to be a very serious problem in most industrial countries, not only because of its essential unfairness but because it constitutes a threat to continued economic growth and employment. I note from the documents that the average GNP deflator for the OECD as a whole was 5.7 per cent in 1970 compared to 4.6 per cent in 1969. Some deceleration in consumer prices occurred in Canada, the U.S.A., France, Austria and Denmark. This was offset by more rapid increases in other countries, and I note that we can expect only a minor improvement in price performance in 1971.

Canada had considerable success in 1970 in meeting the problem of inflation. In the calendar year our consumer-price index rose by 3.3 per cent, and during the most recent 12-month period for which statistics are available by only 1.8 per cent. Among the contributing factors were an unusual decline in food prices and the impact of currency appreciation in our domestic price level. The rate of increase in prices was slightly higher in the first quarter of 1971 than 1970, primarily as a result of an expected rebound in food prices, which were unusually low in the latter part of 1970 due to a price war between major Canadian supermarkets. Increases in labour costs tend to be a bit below last year's average. Nonetheless, we agree with the Secretary-General that it is essential to remain alert to a possible resurgence of inflationary pressures.

We strongly support the work that the OECD is doing in this field and endorse the proposals of Working Party 4 calling for a multi-policy attack upon the problem of inflation, for special care in demand-management policies to prevent demand from becoming excessive and, to the greatest possible extent, for selective measures directed to bringing about improvement in areas of high unemployment rather than more general fiscal policies. The multi-policy approach, which Canada has been trying to follow, calls for a careful meshing of monetary and fiscal measures with other economic and social policies. Followed with firmness, it can do a great deal to cope with the problem of inflation, although each country must decide the appropriate weight to be given to each of the various factors in the light of its particular circumstances.

There are two specific areas in the multi-policy approach to which I should like to refer briefly. The first concerns restrictive business practices and the need for co-operative international control arrangements to deal effectively with the increasing internationalization of business. An increased exchange of information respecting the operations of international enterprises would be specially valuable. Minimum standards of international competitive behaviour should be developed and their observance promoted. The second concerns prices and incomes policies. Many countries seem to accept the need for some such measures to influence prices and incomes. There are differences of view as to the necessity and feasibility of statutory controls of a more or less permanent nature. In 1970, the Canadian Prices and Incomes Commission called for voluntary restraint and, while it did have an impact, its influence on wages was slight. This year the Commission is continuing its price surveillance and price reviews, although business is no longer subject to the voluntary commitment it accepted in 1970. The question of statutory controls in this field must be considered by countries individually. In Canada the adoption of such controls in peacetime would be unprecedented and would be regarded as a major step indeed.

This meeting is taking place against the background of a major crisis in the international payments system. As a major trading nation, Canada attaches the highest importance to an orderly international system of trade and payments. While the current-account balances of some major countries moved some distance toward a better equilibrium in the light of stated objectives in 1970, I note the Secretariat forecast that there will be little progress in 1971 toward a pattern of current-account balances that would support appropriate capital flows. The fact is, though, that the recent disturbances have come about primarily as a result of capital movements rather than current-account imbalances. The speculative flows early last month, which resulted in changes in a number of European exchange-rates, emphasized the need for improvement in the present system. This will not be a simple task.

Let me recall the circumstances that led to the freeing of Canada's exchange-rate just over a year ago. In 1969, Canada had a sizable deficit on current account and there was a large outflow of short-term capital in response to a rise in interest-rates abroad. These out-payments were offset by the traditional inflows of long-term capital and only minor changes occurred in our official reserves during the year. Substantial shifts, however, occurred in our balance of payments during the first five months of 1970 and, as a result, our overall reserves rose at an accelerated rate and increased by \$1,200 million (U.S.) during that period. Our exports increased to a much greater extent than could be accounted for by the rebound from the effects of strikes late in 1969. In addition, short-term capital outflows declined in response to lower interest-rates abroad and this combination left Canada exposed as a target for speculative

inflows. We decided to act promptly before speculation became too heavy - thereby, we believe, making a contribution to the stability of the international monetary system.

Our situation in May 1970 was not quite comparable to that faced by others last month. In the first place, we had moved comparatively quickly from a deficit to an unexpectedly large surplus on current account. Secondly, our trading and financial relations with the U.S.A. are very close. Finally, the extreme openness of our economy to the movements of goods and capital causes us to experience unusual difficulty in maintaining a fixed exchange-rate within the margins prescribed by the IMF (International Monetary Fund).

The classic prescription would have been to seek the concurrence of the Fund to a new and higher par value. Our problem was to determine a rate that would be sustainable for a reasonable period.

In taking the decision to move to a floating exchange-rate, we made clear our intention to resume our obligations under the par-value system as soon as circumstances permit. This remains our firm determination and, while we have reviewed the situation from time to time during the past year, the underlying situation, both internal and external, has not seemed to us sufficiently settled to re-establish a par value that could be defended over the foreseeable future. In terms of payments, we have been confronted by a need to bring about an adjustment in our capital account in line with changes that have occurred in our current account. Expansionary financial policies, which our domestic economic situation required, have been helpful, but we have had to reinforce the effect of these policies by appeals to Canadian borrowers to seek the funds they required in the Canadian market to the maximum possible extent. At the same time, we felt a sense of uncertainty about the impact of international developments - a sense that would appear to have been justified by recent events.

The extent of departures from the fixed-rate regime that have taken place raises very large issues. Our experience and that of others has underlined the inherent difficulties involved in combining a system of fixed exchange-rates and free capital flows internationally with the imperative demands placed upon our control instruments by the objectives of high employment and price stability domestically. There are a number of different ways of escaping from the dilemma -- greater exchange-rate flexibility, greater control over the international flows of capital, greater international harmonization of monetary policies - but all these alternatives raise difficulties of a practical and policy nature.

One thing is clear - namely, that international consultation and co-operation are becoming more and more essential in order to attain our individual and collective goals. In this task, the OECD has a major role to play. Canada is ready to join with others in the search for further improvements in the international system, which, though not perfect, has within itself the capacity to move with the times, coping equally with continuing difficulties and new problems. Canada supports the principle of strengthening co-operation on economic policies within the OECD.