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INDUSTRIAL PROGRESS AND THE CANADIAN ECONOMY

An address by the Minister of Trade and Commerce,
Mr. C.D. Howe, to the American Society of Tool
Engineers, in Montreal, on October 29, 1949.

I particularly appreciate my invitation to be your guest speaker this evening. I would like to extend a hearty welcome to our visitors from the United States on behalf of the Government of Canada. We in Canada take pride in our industrial development of the past ten years, and I am aware that you who are assembled here have a right to claim credit for having equipped Canadian industry, as well as American industry, with the best tools in the world.

This evening, I propose to tell you something of the Canadian economy and of our industrial progress of the past ten years. I may even venture to discuss prospects for future industrial development. The tool-making industry can prosper only as industry generally can prosper, and therefore, I feel that this line of discussion may interest your membership.

Ours is a healthy, prosperous, well-balanced and, in fact, a booming economy. Our situation compares favourably with that of any other country in the world. In the short period of the last decade, we have about tripled our production in money terms and doubled it in real terms. Canadian labour income has tripled; Canadian farm income has tripled; Canadian external trade has about quadrupled in value and doubled in volume. In short, Canada has never been in a better position to face whatever adjustments may be necessary in our economic life. That adjustments will be necessary, following the abnormal conditions of the last decade, should be obvious to all. The striking point is the extent to which these adjustments already have been made, and that, during a period of adjustment, Canada has maintained a higher level of investment, production, employment and real standard of living than ever before.

Canadian industry, like that of the United States, has surged forward during the war years, partly at least as a direct result of war demands, and in post-war years, because of the physical destruction in Europe, and the virtual elimination of the industry of Germany and Japan. The Canadian development would have proceeded, but at a more moderate pace, in any event, as a natural result of the development of our resources, but the war and post-war conditions have pushed it ahead under forced draft. Canada is now in third place among the nations of the world in exports of manufactured goods, following the United States and the United Kingdom. In per capita terms, Canada's exports are much larger than either the United States or the United Kingdom. In short, Canada has come of age, industrially, within the past eight years.

The spectacular growth of our manufacturing capacity applies to established pre-war industries, such as motor vehicles, railway rolling stock, agricultural implements, and textiles, as well as to other industries which were of minor importance before 1939. Examples of the

latter group are aluminum, chemicals, plastics, aircraft, machine tools and electrical apparatus. During the war years, entirely new products, such as synthetic rubber and synthetic textiles, came into production. Our primary iron and steel industry was expanded by 70 per cent.

Another outcome of the past eight years has been the better integration of Canadian industry. Before the war, our industry was heavily dependent on imported parts. Today, Canada's manufacturing industries have become important users of one another's products, and have thus gained a greater degree of flexibility of output. Over 200 products which were formerly imported are now being produced in Canada. With all this, Canada remains an important market for imported machinery and equipment, imports in this class running at about five hundred million dollars a year.

There is no mystery about the sources of the great increase and variety in Canadian output. Canada is endowed with natural resources equalled by a few countries in the world. The greatest asset we have is an abundance of low cost hydro electric power. Practically every mineral that is found anywhere in the Northern Hemisphere can be produced in abundance in this country. Our forest and our farms are the foundation of important industries, as well as being the backbone of our export trade.

New discoveries of petroleum and natural gas in Alberta promise to make that province the equal of Texas as a source of these products. A petroleum pipeline is now being constructed from the oil fields of Alberta to a terminus on Lake Superior. Plans are under way for a gas pipeline from Alberta to the West Coast. You are well aware of the industrial potential of a plentiful supply of petroleum and natural gas.

The largest known deposit of titanium is in Northern Quebec, and a refinery for this metal is being built near Montreal. An important source of high grade iron ore has been opened up on the boundary between Quebec and Labrador, which rivals in magnitude the Mesabi deposits in Minnesota. By the end of the 1948 season, over 300 million gross tons of iron ore had been proved, with many known outcrops still to be drilled. Development of this iron deposit is closely linked up with the St. Lawrence Seaway, which, when built, will provide low cost water transportation from the mines to the steel industry on the Great Lakes. The Labrador ore possibilities may well turn the balance in favour of the rapid development of the St. Lawrence Seaway.

During the war years, the Government of Canada helped to finance industrial expansion which, from 1939 to 1945, totalled $4\frac{1}{2}$ billion dollars. Practically all of the plant which was financed by the Government in this period has been sold or leased to private industry. During the four post-war years, an additional 6 billion, 800 million dollars has been invested by Canadian business, of which 2 billion 200 million dollars represents investment in plant and equipment of manufacturing industries. This four-year post-war investment represents an outlay of over \$1,700. of tool power per worker employed in the manufacturing industries. In 1948 alone, 564 million dollars was invested in manufacturing facilities, this figure being approximately one-third greater, in terms of national income, than similar investment in the United States.

Great progress has been made in improving managerial efficiency and know-how and the skill and effort of our working force. Skills of Canadian labour have been improved through up-grading and training of civilian workers in war production, and by improvising methods that permit entry of unskilled workers into the labour force. All this has produced a more versatile army of working men and women. Canadian industrialists are gaining new confidence in their ability to undertake new and larger enterprises.

While all these considerations explain in part our industrial Canada of some 30,000 plants today, there is another development of significance. Output per man hour - labour productivity - has increased during the post-war years. Since the war ended, both management and labour have become conscious of the fact that if our standard of living is to be maintained and improved, there must be an increase in labour productivity. Although statistics are lacking, there is every indication that the loss in productivity per man hour during the war years not only has been regained, but has been greatly exceeded. This is true in the United States as in Canada.

The Government's policy toward Canadian industry was set out in the White Paper on Employment and Income, which was placed before Parliament in April, 1945. In it, "the Government has stated unequivocally its adoption of a high level of employment and income, as a major aim of Government policy". The White Paper also goes on to say that the Government, in its relations with the business community, "will make every effort to create by all its policies favourable conditions within which initiative, experience and resourcefulness of private business can contribute to the expansion of business and employment".

In line with this policy, ways and means were adopted to encourage and speed up the conversion, modernization and development of domestic industry. Among the measures taken were the rapid closing-out of war contracts; the disposal of Government-owned materials, plant and equipment; the winding up of Government-owned projects; fiscal encouragement to new companies through partly exempting them from the Excess Profits Tax; provisions that business may average profits for taxation purposes, and special depreciation allowances on new investment. These specific measures were supplemented by broader policies designed to assist in reconversion of war industries, such as extension of credits to our foreign customers to aid in their recovery as well as to maintain Canadian markets. As a result of these policies, the reconversion period ended with the year 1947 and since then, business has been carrying on without loss of momentum.

Our prosperity in Canada and our economic welfare depend upon conditions existing both in the United States and in the United Kingdom. These two countries take 70 per cent of our exports and supply 80 per cent of our imports. We could not isolate ourselves successfully from either one of them, even if this seemed desirable. Our commercial destiny is closely linked with both. This relationship is by no means a one-way street. The Canadian market is one of the largest import markets in the world, and Canada is the largest and most important customer for both the United States and the United Kingdom.

Thus we stand with one foot in the sterling area and the other foot in the dollar area. In our own interest, and apart altogether from political considerations, we must try to prevent these two great trading areas being divided into two separate and divergent groups. It must be our policy to keep the channels of finance and trade open between the sterling area and the dollar area. Our difficulty at the moment is to bring the trade of Canada with its two principal customers into balance.

In the year that ended on September 1st last, we sold to the United Kingdom goods to the value of about 700 million dollars, and imported from the United Kingdom goods to a value of 325 million dollars. In the same year, we sold to the United States goods to the value of one billion 550 million dollars, and we imported from the United States goods to the value of about two billion dollars. Our excess of exports to the United Kingdom was paid for in part by a Canadian loan, and in part by Marshall Plan dollars allocated to the United Kingdom. Obviously, our policy must be to increase our imports from the United Kingdom in order to bring about a better balance between exports and imports.

Our adverse trade balance with the United States represents a drain on our dollar resources that must be kept to manageable proportions. Either we must export more to the United States, or alternatively, buy less in that country. Of course we prefer an expansionist policy to a restrictive policy, in both cases.

Traditionally, Canada buys more from the United States than it sells to the United States, with the adverse balance widening in periods of our industrial activity. During 1947, our imports from the United States were running at a level of about 2 billion dollars per annum, while our exports to that country were running at about only one billion dollars per annum. By November of that year, our reserves of American dollars had been depleted to a point that required emergency action. Our Government found it necessary to institute an import control programme, as a means of avoiding American dollar bankruptcy. This programme had two general objectives: the first, to reduce imports, and the second, to direct the activities of Canadian business into channels that would provide increasing dollar exports. An Emergency Exchange Conservation Act was placed on the statutes, which provided three classes of import controls: Schedule I of the Act lists certain consumer goods which are classed as unessential and the importation of which is prohibited. Schedule II lists other consumer goods importation of which is restricted to a quota basis. Schedule III lists a wide range of capital goods and production material which can be imported only under general or special permits. I am happy to say that administration of the Emergency Exchange Conservation Act is bringing our export trade into better balance, without restricting the activities of Canadian industry. That industry has continued to expand as indicated by the fact that 1949 capital investment will reach three billion 200 million dollars, compared with three billion dollars in 1948 and 2.4 billion dollars in 1947. Canada's 1949 level of capital investment represents the highest rate of new investment in proportion to income in any country of which we have a record. Our unfavourable balance of trade with the United States was reduced by some 600 million dollars in 1948, as compared with 1947, and although some of the ground gained in our balance of payment struggle has been lost this year, the situation has been brought into manageable proportions.

American industry has a very considerable stake in Canada in the form of branch plants. By the end of 1948, the value of United States direct investments in Canada totalled 2 billion 700 million dollars, of which one billion 600 million dollars were invested in Canadian manufacturing concerns, controlled in the United States. Total United States investments in Canada are about 5 billion dollars, and it may be of interest that this investment pays a bigger cash return to American investors than all other American investments abroad put together. Some 2,000 American companies and branches are now established in this country, of which over 1,000 are engaged in manufacturing.

We hope that more American companies will avail themselves of the favourable conditions for investment in Canada that follow the recent exchange devaluation. Such a move would be welcomed here, if only as a means of correcting our unbalanced U.S. dollar position.

Another exchange between our two countries which we both can welcome, is the exchange of brains, - technicians, engineers, and economists. I am not one of those who has been alarmed by rumours that Canadian brains are being drained off to other countries. True, many Canadians go to the United States to do post-graduate work, or to find employment in industry. However, only one out of ten engineers, graduated from the largest Canadian Universities, is now living outside Canada. This loss of one in ten of Canadian trained personnel is more than compensated for by the American and British talent that we have imported. Approximately two of every ten of our technical personnel has been recruited from abroad.

No other two nations enjoy to their mutual benefit such a constant interchange and fluidity of scientific knowledge and of technical personnel. We are proud of Canadians who are making their contribution to American industry, and feel that for one reason or another, these benefits return to us in some form. Equally, we are glad to have American technicians making a contribution to our industrial expansion. A splendid example of such a contribution is found in the many Americans assisting us in the Alberta oil development.

Let me conclude with this observation: it is important that Canada and the United States shall continue to make progress industrially, making full use of the best technical information available on either side of our common border. In war and in peace, our problems are common problems. We have learned to depend on each other, and I believe that neither of us has had reason to regret having done so. It has been our habit to make the resources of one country available to the other country, and most of us feel that this has proven to be a good policy and one that we will do well to foster. It is this common mentality, and common outlook, that has bound us together in the past, and that offers so much hope for the future. I sincerely hope that your meeting in Montreal has been a success, and an occasion that will be repeated in the not too distant future.

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