



Bulletin

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CANADA FACES THE CHALLENGE OF INFLATION

On March 6, the Minister of Finance, Mr. Mitchell Sharp, announced to the House of Commons the fiscal measures he proposed to take to provide the Government with the revenues that Bill C-193, rejected by the Parliament on February 19, had been designed to produce. Mr. Sharp's statement follows in part:

...Both the international exchange and capital markets have been influenced considerably by the American balance-of-payments programme announced on January 1 this year. The main item in the U.S. programme which has created uncertainty over its effects on Canada has been the new mandatory control over direct investments by American-controlled businesses in other countries. When this programme was announced and explained to us, it was evident that the U.S. Government had tried to achieve its objectives in ways that would minimize any impact on Canada, which, as the figures of the balance of payments between our two countries show, would be counter-productive as far as the United States is concerned. I was able to say when these controls on direct investments were announced, that the assessments given me indicated that these were not intended or likely to lead to any material reduction in the flow of U.S. direct investment to Canada this year.

Since January 1, we have examined the probable effects of these controls in more detail and discussed them with the United States on several occasions. These controls leave room for about as much flow of direct investment into Canada as would occur without them this year, with a few exceptions. In the particular case of the petroleum industry, where programmes change considerably from year to year, some problems have been under review both here and in Washington, and I expect these can be overcome.

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CLARIFICATION FROM WASHINGTON

However, in the nervous mood that has existed in international markets in recent months, it was natural that there would be uncertainty and concern over the possible effect of these American measures on the Canadian situation. Around the middle of January, pressure developed against the Canadian dollar in exchange markets, apparently triggered by misunderstanding of the effects of these U.S. controls on direct investment. On January 21, the U.S. Secretary of the Treasury, after discussing the matter with me, issued a clarifying statement which provided reassurance that the new U.S. balance-of-payments programme does not call for, nor is it intended to have the effect of causing, abnormal transfers of earnings or withdrawals of capital by U.S. companies having investments in Canada, and that the programme provides scope for continued large flows of capital to Canada. There continues, of course, to be an important inflow of long-term capital from the U.S.

On January 21, the Bank of Canada increased its bank rate from 6 to 7 per cent and announced that the chartered banks had agreed to discourage the use of bank credit to facilitate abnormal transfers of funds abroad by Canadian subsidiaries of foreign companies, or to replace financing which has in the past normally been provided by parent companies.

Following this clarification by the U.S. and the action of the Bank, the pressure on the Canadian dollar abated. The regular announcement of our

reserve position at the end of January indicated that Canadian reserves during the month had declined approximately \$100 million (U.S.) after taking into account the drawing into our reserves of \$250 million (U.S.) by the Bank of Canada through activation of part of its reciprocal credit facility with the Federal Reserve System.

In the early part of February, there was a period of further pressure on the Canadian dollar in the exchange market as the market reacted to the news of the changes in the reserves during January. Later, there was substantial pressure on the dollar again after the adverse vote on the Government's tax bill. The state of our reserves at the end of February... makes clear that there would have been a further reduction in our holdings of exchange that month had there not been an addition to the reserves secured by the drawing upon the International Monetary Fund. If we had not made this drawing, there would have been a reduction of \$113 million (U.S.) in our gold and foreign-exchange holdings....

TRADE POSITION STRENGTHENED

In regard to concern over our competitive position, I would like to recall that our trade position last year was stronger than it has been for some years past, and that, by the end of the year, our trade surplus was running at its highest level in over a decade. Indeed, our overall current-account position on the balance of payments in 1967, which I am told will be published later this week, has been considerably stronger than for several years previously. While some of this strength derived from the extraordinary receipts that we obtained from tourist trade because of Expo 67, the net improvement on all our other current international transactions was nearly as large. We can reasonably expect that our current-account balance this year, though it is bound to widen, will still be better than it was in either of the two years before Expo. It will thus represent an improvement in relation to the average deficit of the last 12 years, both in absolute terms and more especially in relation to our now greatly enlarged national output and volume of international transactions.

The present exchange-rate of the Canadian dollar is appropriate to the situation of our economy. We are still experiencing the upward thrust in our economy which began seven years ago, and which has continued without serious interruption to the present. Our export performance has been good, especially in the past few months. Imports have not been increasing disproportionately. Our economy is not significantly under-utilized; indeed, it is still displaying some of the effects of excess demand pressure which had built up over the long expansion. In these circumstances, a lower exchange-rate would add to our inflationary problems by increasing the demand on Canadian production by foreigners and by reducing the use by Canadians of goods and services produced abroad. Domestic demand would have to be further restrained in order to offset the inflationary consequences of these reactions....

Honourable Members will recall that we enjoyed a long period of economic expansion from 1961

through the boom of 1966, when the economy reached capacity. In the latter part of that year and in 1967, the rate of growth slackened, particularly in business capital spending, while employment and production levelled off. We were confronted with the problem of keeping the economy on a stable growth path while pursuing our major economic objectives of full employment, stability of prices, a high rate of growth, a viable balance of payments and an equitable distribution of rising incomes.

PROBLEM OF COST-PRICE STABILITY

During last year, it emerged that our main problem was to achieve stability of prices and costs despite a lessening in the excessive aggregate demands upon our economic resources. We seemed, however, to be plagued by a cost-push type of inflation even after the demand-pull type had subsided. As we look ahead now, I think we shall find there is so much to be done in Canada that is worth doing that it doesn't seem likely that there will be a deficiency of aggregate demands over the next few years, but rather a need for managing that aggregate and assigning priorities to its various components so that we can have enough stability to permit sustainable growth.

In the three months since the budget statement of November 30, one of the most important economic factors has been the increasing evidence of rapid economic expansion in the United States. The pause which the American economy experienced in the first half of 1967 has been left behind. Business-capital investment is now expanding in that country and expenditures by consumers and governments are rising rapidly. There is, indeed, a real possibility of inflationary price and cost increases in the United States such as Canada experienced in the past two years, unless there is a tax increase or other forms of fiscal restraint.

In continental Europe, expansion is to be expected as well. The OECD is now forecasting a renewal of expansion in that area during 1968 at a rate of 3.5 per cent in real terms. The expansion for the whole OECD area including the U.S. and Japan is forecast at 4 to 4.5 per cent.

TRADE SURPLUS UP

These external developments are providing a good market for most Canadian exports. One of the most encouraging features of recent months has been the strong expansion of exports in November and again in December. They have shown strength in all major market areas. Despite the problems encountered in marketing wheat during the past year our merchandise trade surplus for 1967 was substantially higher than that for the two preceding prosperous years.

Industrial production in Canada showed substantial increases in November and December, led by the automotive industry and primary iron and steel. Unemployment has fluctuated narrowly around the 4.5 per cent level after allowing for the usual seasonal pattern. Its increase during the past year up to this level has reflected, of course, a variety of factors, including, particularly, the failure of capital expenditures by businesses to expand during 1967.

IMMIGRATION ADJUSTMENT PLAN

The following is part of a statement made on March 11 by the Minister of Manpower and Immigration, Mr. Jean Marchand, on the occasion of the launching of a pilot project for the reception, adjustment and integration of immigrants in the Province of Quebec.

I am very happy this morning to inaugurate one of our newest undertakings, a pilot project destined to pave the way to a complete programme of services for immigrants. The object of the programme is to cushion their first contact with their country of adoption, and to create a climate of confidence. I am also very happy to underline the co-operation between my Department and the Quebec Immigration Services and the Quebec Department of Education.

The programme which we are launching today here in Quebec takes into account all the needs of immigrants, from the moment of their arrival until they have adjusted themselves to the new country. The immigrants will be welcomed in Quebec City by manpower counsellors and given immediate help. They will be provided with the information they require on personal problems, financial, medical or social assistance, transportation and lodging. The same day, if possible, counsellors will inform immigrants of the various services available to them and which they most likely will require shortly, such as education, medical insurance and family allowances.

Our counsellors will endeavour to discover the particular needs of each immigrant. They will register him with the Canada Manpower Centre at his

destination and, if he is qualified, recommend him to a potential employer.

SPECIAL COURSES

One of the original aspects of this project are courses that will be given by the Quebec Department of Education on various aspects of Canadian life. The courses will be presented within the framework of the Adult Vocational Training Service. Situations which are most likely to differ from those of the native country of the immigrant will be the subject of those courses: government services, educational systems, social legislation, working conditions are some of them. Others include credit and banking, money and measures. It is important for us to realize that questions which appear obvious to us can be very complicated for someone who has just arrived here from another milieu.

Special language courses also will be provided. The Department of the Secretary of State is co-operating with private agencies in Quebec City to present special study sessions, afternoon and evening, for the wives and children of immigrants. This portion of the project will include a visiting programme to new Canadian families in the area. This will be done in close association with la Fraternité canadienne.

After the project has been given a fair trial, it will be assessed. If it has made a substantial contribution to the early adjustment of immigrants, and I am optimistic that it will, then we would hope to adopt a similar approach not only elsewhere in the province but throughout Canada....

HISTORIC SITES POLICY

Mr. Arthur Laing, Minister of Indian Affairs and Northern Development, tabled a statement in the House of Commons on March 4 regarding the policy of Canadian national historic sites.

"The policy statement," Mr. Laing said, "deals with the following subjects, among others: criteria for designating national historic sites; need for a comprehensive and balanced historic sites programme and for a national master plan and master plans for each individual park; and methods of commemoration."

"This important policy," he continued, "has been recommended to me by the Historic Sites and Monuments Board of Canada, which advises me on historical matters. I have accepted their recommendation. The Board feels, and I certainly agree, that this statement of policy should be given wide publicity. I believe we are the first country to introduce a national policy statement for national historic sites, just as we were the first to introduce a national parks policy in 1964."

The need for a comprehensive and well-balanced historic sites programme is emphasized by the fact

that, up to now, the programme had tended to be unbalanced thematically and geographically, with undue emphasis on military history while other equally important areas have not been dealt with. Under the new policy, every effort will be made to interpret all the major themes of Canadian history, and to ensure that there is appropriate geographic representation of historic parks and sites throughout Canada.

Mr. Laing pointed out that, between 1957 and the end of 1967, attendance at national historic parks and sites had increased from 429,122 to almost 2.5 million. In centennial year, average attendance increased by almost a third over previous years.

GORDON RESIGNS

The Prime Minister has announced that he has accepted the resignation of Mr. Walter L. Gordon as President of the Privy Council, effective March 11.

In accepting Mr. Gordon's resignation, Mr. Pearson assured him of his appreciation for the distinguished service he has given to Canada.

Mr. Gordon, a native of Toronto, was educated at Upper Canada College, Toronto, and the Royal Military College, Kingston, Ontario.

He was elected to the House of Commons in June 1962. Re-elected in April 1963, he was sworn of the Privy Council and appointed Minister of Finance and Receiver General of Canada. In November 1965, Mr. Gordon resigned from the Cabinet. He was appointed Minister without Portfolio in January 1967. In April he became President of the Privy Council.

MAURITIUS INDEPENDENCE

Mr. Michel Gauvin, Canadian Ambassador to Ethiopia, was the official representative of the Canadian Government at the independence ceremonies of Mauritius held between March 10 and March 13.

Mauritius is the only French- and English-speaking country in the Commonwealth besides Canada; the French-speaking part of the population amounts to about the same number as in Canada. Since 1962 there has been a programme of Canadian aid to Mauritius, which has included the sending of technical experts, advisers and teachers to the island and the granting of scholarships to Mauritian students for training in Canada. Canada is also the second largest market for Mauritian exports, consisting principally of sugar.

FORCES GET NEW EGGBEATER

The *Iroquois*, newest helicopter for the Canadian Armed Forces, was officially accepted by Mr. Leo Cadieux, Minister of National Defence, at a ceremony at Canadian Forces Base Uplands, near Ottawa, on March 6.

The first of ten such helicopters assigned to the training squadron, it will be used to train pilots and technicians in providing tactical support for units of Mobile Command.

The medium-sized craft has a crew of two and can carry 11 combat-equipped troops. It can also be used for casualty-evacuation, reconnaissance, airborne command, aerial resupply, search and rescue and fire-fighting. Powered by a 1,400 hp. turbine engine, the *Iroquois* can cruise at 115 knots for three hours without refuelling.

DIPLOMATIC APPOINTMENTS

Mr. Paul Martin, Secretary of State for External Affairs, announced the appointment on March 7 of Mr. Robert Choquette, at present Canadian Consul General at Bordeaux, as the new Canadian Ambassador to Argentina, with concurrent accreditation to Uruguay. He will be replaced by Mr. René Garneau, Canadian Ambassador to Switzerland, who is also accredited to Algeria.

Mr. Choquette was born in New Hampshire, U.S.A., in 1905, and educated in Montreal. He was appointed Associate Commissioner of the Centennial

Commission in Ottawa in 1963 and joined the Department of External Affairs as Consul General at Bordeaux in November 1964.

Mr. Garneau was born in Quebec City in 1907 and graduated from the Universities of Montreal and Laval and the University of Paris. He joined the Department of External Affairs in 1951, has served with the Department in Paris and Brussels and was formerly accredited to Tunisia.

Mr. Martin also announced the appointment of Mr. Richard V. Gorham as the new Canadian Commissioner to the International Commission for Supervision and Control in Cambodia, replacing Mr. S.H. Nutting, who will return for duty to Ottawa.

Mr. Gorham, born in Fredericton, New Brunswick, in 1927, was educated at the University of New Brunswick and Clark University in Worcester, Massachusetts. He joined the Department of External Affairs in 1952, has served at the Canadian Embassy in Tokyo and at the Office of the High Commissioner for Canada in New Delhi.

CANADA-U.S. PARKS EXCHANGE

A programme for the exchange of the staff of their national parks has recently begun by the United States and Canada. The plan, which will eventually include experienced administrative and operational personnel of national and historic parks, was worked out by senior officials of the National and Historic Parks Branch, Department of Indian Affairs and Northern Development, and the National Park Service, U.S. Department of the Interior. Each country hopes to acquire more knowledge of the national parks policies of the other.

WHEAT EXPORTS

Total exports of wheat and wheat flour (grain equivalent) from the four major exporting countries - Canada, the United States, Argentina and Australia - in the period August to December of the current Canadian crop year amounted to 563.8 million bushels, a decrease of 23 per cent from the total of 738.3 million exported during the same period in 1966, but 6 per cent above the ten-year (1956-65) average for the same period of the crop year, of some 519.8 million bushels.

Supplies of wheat held by the four major exporters at January 1, 1968, for export, and for carry-over at the end of their respective crop years, amounted to 2,154.6 million bushels, 6 per cent above the 2,031.2 million at the same time a year ago. The newly-harvested 1967-68 wheat crops in Argentina and Australia are included in these totals.

The total supplies of wheat in Canada for the 1967-68 crop year are estimated at 1,169.7 million bushels, a 6 per cent decrease from the 1966-67 total of 1,247.5 million. This decline reflected a sharp reduction in the 1967 crop, which more than offset an increase in carry-over stocks.

AID TO INDIA AND PAKISTAN

Mr. Paul Martin, the Secretary of State for External Affairs, announced recently that the Canadian Government had agreed to the use of Canadian counterpart funds to help finance 14 development projects in India and Pakistan. A total of 420,800,000 Indian rupees (equivalent to about \$75 million) has been allocated to five projects in India. In Pakistan a total of 40,200,000 rupees (\$9,100,000) will be used for nine projects. In both countries, most of the projects are in the field of agriculture.

The counterpart fund is a long-established feature of Canada's external aid programme and is designed to ensure that each aid dollar is put to maximum development use. When commodities are supplied on a grant basis (as in the case of food aid)

Canada requires the recipient country to set up an account in its own currency equivalent to the dollar value of the Canadian shipment. These funds must be spent on economic development, including education, technical training and social infrastructure projects. Title to the counterpart funds rests with the recipient; investment priorities are established basically on its initiative; but expenditures become subject to the donor's prior concurrence.

Under this system, the recipient country receives urgently-needed supplies of food and industrial materials, with a valuable saving in foreign exchange. It is able at the same time, to underwrite development programmes with an equivalent amount drawn from its national income.

TROOPS ENTERTAINED ABROAD

A troupe of 48 singers, dancers and musicians is performing this month for Canadian troops in Europe and Cyprus.

The show, which is being sponsored jointly by the Department of National Defence and the Canadian Broadcasting Corporation, gave three performances from March 13 to 15 for troops of the 4th Canadian Infantry Brigade Group based in Germany. Six performances are scheduled for Cyprus from March 20 to 23, at the Ledra Palace and Dome hotels, the crippled children's hospital and Camp Maple Leaf.

Featured performers with the show are singers Elaine Bédard, Shirley Harmer and Danielle Aubé. Conductor and arranger Dick Vogel, trumpet soloist Benny Barbara (formerly with Xavier Cugat and Perez Prado), the comic-dance team Benny and Judy, and guitarist Nico, who starred at Expo's Hospitality Pavilion, are members of the cast.

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(Continued from P. 2)

Business-capital expenditures are still influenced by the reduced level of profits in many industries and by concern over costs and the marketing prospects for various Canadian industries. In some cases the level of investment may be affected by the reduced level of retained earnings available for financing it, and by high interest rates, though I have seen little evidence that there is any shortage of bank credit for Canadian business. Any rapid upturn in the level of business-capital expenditures is unlikely under present circumstances. Fortunately, the current level is a high one and permits the expansion of our industrial base and the modernization of Canadian equipment and techniques.

HOUSING CONDITIONS

Some improvement is evident in housing. In 1967, housing starts reached a total of 164,000 - less than we should have liked, but an increase of 22 per cent over 1966, and a better total than many had expected during the year. I have been glad to note that the wider latitude provided for the market to determine the rates of interest of National Housing Act insured mortgages, has led to an increasing flow of private funds from various types of institutions. The rates being paid for such funds are high by previous standards, and they are, as they must be, competitive with other interest rates in the financial markets both here and in the United States and Europe. I think we can look forward to a higher rate of private housing starts this year than last, particularly for apartments, while at the same time we are able to concentrate the funds provided by the Government to the Central Mortgage and Housing Corporation into various types of public housing....

It seems quite evident to me that our first priority in economic policy now must be to achieve greater stability in prices and costs.

The consequence of the expectation of continued increasing prices has been reflected in our capital markets, specifically the market for government and municipal bonds, and for mortgages. The high interest rates being asked by investors are partly a reflection of the high level of interest rates in the United States and in Europe, where similar conditions prevail, and also of the heavy demands placed on the capital markets in the past year. They also reflect, however, a widespread expectation of price increases continuing - not only in Canada but elsewhere, over a long period - which makes investors concerned about tying up their funds for a long time unless they get high yields in compensation for them. One important reason why we must stop these persistent inflationary trends is to make it possible for governments, municipalities and home-owners to be able to borrow money for long terms at reasonable interest rates.

COURSE OF FISCAL ACTION

It is against the foregoing background that we must now consider our course of action. We consider it necessary to maintain the kind of strong fiscal position which Bill C-193 was intended to help create. The purpose of such a fiscal policy is to check the inflation that I have described by bringing our revenues into line with our expenditures. It is the most essential element in a programme directed to that end. Until we have an adequate fiscal framework, we cannot properly endeavour to supplement it with other measures.

The new tax proposals will provide nearly as much revenue as Bill C-193 would have produced — \$390 million of budgetary revenues compared to \$425 million of budgetary revenues. We should receive an additional amount of \$50 million non-budgetary receipts in each case. We propose to make up the difference — and more — by a further reduction of \$75 million in Government expenditure for the next fiscal year. This can only be done by tough and somewhat arbitrary measures of a temporary character, which are appropriate in an emergency like the present one. We propose to table a revised schedule of estimates reflecting these reductions for the approval of Parliament, in place of the present main estimates.

I also want to announce that the Government has decided to impose a freeze forthwith on the total numbers employed in the Public Service as a whole....

INCREASING COSTS AND PRICES

The chief limit which confronts us now and about which we have learned much in the last several years is that of the inflationary tendencies that develop as we approach toward full employment. We have found that at a level of unemployment of 3.5 per cent in 1965 and 1966 our prices began to increase sharply. Our costs increased much more rapidly than did those of competing economies.

Even when the level of employment dropped off a little and the pressure of demand upon our markets was intense, we have found that the momentum of wage increases, of other cost increases, of price increases, has kept up. That is now the chief constraint upon our policy.

Nor is our problem simply the actual price increases taking place now. What is most disturbing is the growing tendency to expect that prices will continue rising year after year in the future. It is this amongst other factors which is causing workers to seek such high wage settlements. It is this which is

causing investors in this country and elsewhere to seek such high interest rates. It is this which is causing despair among the old and others with fixed incomes — especially those who are living on the savings they have made over many years. It is this which is creating uncertainty in the minds of those whose productive investment must give us more and better jobs in the future. It is this expectation, most fundamentally, which is the concern of those who must choose between investments in Canada and investments elsewhere....

We must give priority in our fiscal policy to resisting inflation. We must also plan, in consultation with business, with labour, and with all those whose decisions are important in determining prices, a means of greater understanding of the mutual danger of excessive increases in prices and in wages, and other costs by which those in positions of strength can exploit their market power under present circumstances.

ECONOMY CONTROLS UNFEASIBLE

We cannot accomplish this direct influence upon prices and wages by imposing a system of controls upon our economy. We have not the legal jurisdiction here in Parliament to do it, nor could we expect under peacetime conditions to solve the multitude of detailed problems that would require solution in exercising a rigid programme of this kind. We are essentially a market economy exposed to the markets of the world. By and large, over decades we have prospered by reason of this open economy. We have developed and expanded faster than almost any other country in the past 30 years. It would be retrograde and unnecessary to abandon all the advantages we derive from operating as a market economy — including not only the markets for goods and services but the markets for labour and for capital. On the other hand, we have to reconcile our overall economic policies, and to achieve our basic economic goals within the framework of free markets.

Instead of legal controls, we must use whatever powers of persuasion and influence we can muster in order to bring about pricing decisions and wage settlements that take into account the overwhelming public interest in price stability. Our purpose and programme which will, as I have said, revolve about the establishment of a Board of Review, will be to get price stability with a higher current level of employment than we could have if we relied only on fiscal and monetary measures to achieve our ends....