



STATEMENTS AND SPEECHES

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
OTTAWA - CANADA

No. 55/35

YOUR COUNTRY AND MINE

The Economics of our Partnership

An address by the Canadian Ambassador to the United States, Mr. A.D.P. Heeney, to The New England Council, The Associated Industries of Massachusetts, The Greater Boston Chamber of Commerce, and The New England Export Club Boston, Massachusetts, October 17, 1955.

It has become a commonplace in my travels in the United States to hear from American businessmen of their high regard for Canada. Indeed, I am afraid that I have become almost too accustomed to American compliments about my country; in particular concerning our methods of government and the wisdom and restraint with which we have managed our financial affairs. And on every side I hear much of the great future said to lie before our nation. All this is most gratifying. We Canadians appreciate your good opinion. And we, of course, share American optimism and faith in Canada's future. Nevertheless the very generosity of the praise sometimes makes me uneasy and I am not infrequently disturbed by the more extravagant reports that I encounter. And I often find myself wishing that some of those who express such high opinions of things Canadian were better informed about our people and our economy.

Canadians are not supermen - except perhaps on the Boston Gardens ice! Nor are there so very many of us - and we are widely scattered. Like you, we have had to open up half a continent. And in our half, much remains to be done. Although predominantly of French and British stock, we embrace within ourselves people of many races. Our national character is still in the formative stage. I have yet to encounter a "typical Canadian". In most parts of the country, we must contend, year in and year out, with long winter months and the heavy economic burden they impose. We are one of the greatest trading nations; in contrast to you we rely heavily on imports to satisfy our needs and must find ways of paying for them in a world where an exporter's way is not always smooth. For this reason, our economy is highly susceptible to variations in the level of business activity in the rest of the world, and particularly in the United States.

I mention these points simply to indicate that we have in Canada no magic formula and that our streets are not quite paved with gold - or even uranium - as some of the stock promoters would have you believe. Like other countries, we are not without difficult political, economic and social problems. We even pay taxes! - and pretty heavy ones too.

But, when all these things have been taken into account, no one can be unimpressed by the enormous forward strides which Canada has made in recent years. The gross national product is currently running at a rate above \$26

billion a year - an increase, at market prices, of over 40 per cent since 1950. This marked growth in production has been the result in part of our rapidly growing population. In the last ten years alone our numbers have gone up by nearly a third and we are now a nation of more than fifteen and a half million. The discovery of vast new natural resources - notably oil in the Prairie Provinces and high-grade iron ore in Labrador - has been an important factor, although only one factor in our expansion.

Canada is in truth growing up. We are unlikely to become another American Colossus, but our development should be worth watching. It is fascinating to speculate on what the future may hold. I don't suppose there is any reason to think that the Canada of today will bear much closer resemblance to the land of tomorrow than does the present Canada resemble the country I remember as a boy.

But idle and uninformed speculation is not enough. For business and government it has become essential to secure a clearer picture of the kind of country we are likely to be living in twenty and thirty years hence. For this purpose our Government recently assembled a small group of distinguished Canadians, armed them with a Royal Commission and instructed them to peer into our future and report on "Canada's Economic Prospects". This somewhat unusual body have a wide and complex mandate. They will be studying population and work force trends, the related needs for basic services and facilities, probable domestic and foreign demand for our products, employment, the position of our secondary industries and much more. In fact the Commission will attempt to reach broad conclusions about the direction and nature of Canadian development over the next few decades. In the process the Commissioners may be expected to delineate the main problems which lie ahead of us. Presumably, too, they will have something to say about the policies which may be appropriate to the new Canadian environment.

This Commission is, of course, not alone in Canada in its preoccupation with the economic future. In the ordinary course of government, Federal, Provincial and Municipal authorities are constantly concerned with the problems associated with our national development.

It would be foolhardy for a diplomat to try to anticipate the conclusions of the experts. But, recently, the Governor of the Bank of Canada had a number of interesting and stimulating things to say on what may be ahead of us. He suggested that, over the next twenty years, the Canadian population might go up by as much as 50 per cent. On careful assumptions, he concluded that by 1975 our gross national product might be better than double that indicated for the present year. Given a larger domestic market and some physical limit on the prudent exploitation of natural resources, he came to the conclusion that exports, though continuing to be a major influence in the Canadian economy, would decline in relative importance. With increased economic maturity, the Governor thought we would be able to produce efficiently more of the finished goods hitherto imported. In short, he foresaw a bigger, more stable, better balanced and more Canadian economy.

One of the striking features of the economic relations of our two countries in the last few years - and one which has important implications for the future - has been the heavy flow of United States investment capital

into Canada. Since the war some 36 per cent of our direct foreign investment has been in Canada, and some 85 per cent of direct foreign investment in Canada has been from you.

At the end of 1954 total foreign long-term investment in Canada amounted to nearly twelve and a half billion dollars of which over three-quarters was owned in the United States. This large volume of United States investment has been an important factor in Canada's economic expansion and a major support to our balance of international payments. It has enabled Canadians to buy more abroad than they have currently earned. Incidentally, it has been responsible in some measure for keeping our currency at a premium in New York; which some Canadians have regarded as a blessing not unmixed, since it has tended to inhibit our exports and, by stimulating imports, made life more difficult for some of our domestic producers.

Why have you Americans invested so heavily in Canada's future? It seems to me that there are several reasons - you have had savings to spare; in many cases you have badly needed what we have been able to provide - and, I might observe in passing, the tax situation has not been without advantage. You also chose Canada, I think, because in a general way you liked what you saw next door and had confidence in the essential stability and integrity of our people.

A high proportion of recent U.S. investment in Canada has been in the extractive industries. Perhaps the most striking example of this is in the development of the youthful petroleum industry of our Prairie Provinces. At the end of 1953 the value of non-resident investment in this industry had risen to well over \$1 billion; and of this no less than 96 per cent represented the United States share. The petroleum industry which is nearly 60 per cent owned by non-residents is, of course, rather special and is not representative of the relative significance of foreign and domestic investment in Canadian expansion as a whole. Indeed, if one takes into account Canada's own foreign investment it can be said that, since the war, our national savings have been sufficient to finance all but a small part of net capital formation in Canada during that period of large expansion.

We have welcomed and continue to welcome the confidence in our country to which your heavy investment bears eloquent witness. This is not to say, however, that the large and growing American stake in our economy is a matter of indifference to Canadians. You will be aware that, in many instances direct investment, as a natural consequence, has involved American ownership or control of Canadian companies. You may not know of the extent to which this has occurred. For example, I am told that at the end of 1952, about a quarter of Canadian manufacturing, mining, smelting and petroleum exploration and development industries and Canadian railways and other utilities, taken together, was owned in the United States. I have no reason to believe that today's figures would show this situation to have shifted substantially to the Canadian side.

I draw attention to this aspect of your interest in Canada because it is a feature of your investment which is, perhaps, insufficiently appreciated in this country. And now that we in Canada are engaged in a serious reappraisal of our national future, the implications of this phenomenon

merit careful consideration not only by government but by American as well as Canadian businessmen and business organizations.

One more point before I leave this subject - the soundness of much recent United States direct investment in Canada will obviously depend on the availability of markets outside Canada. American investors have therefore a very intimate interest in Canada's ability to export if they wish the enterprises into which they have put their money to prosper. This is an interest which should be shared by all those in the United States who export to Canada - your largest market. Our ability to buy from you and to repay you for your investment is directly linked to our ability to earn dollars from you and from the rest of the world. This leads me to say a few words about trade policies.

Customarily Canadians - a population only one-tenth as large - buy much more from the United States than Americans buy from Canada. Last year our current account deficit with you was \$810 million and since the beginning of 1950 the total of such deficits has been nearly \$4 billion. Leaving aside capital receipts, a substantial part of this deficit is usually financed from surpluses we currently earn from other countries. Thus, our ability to import, and indeed our standard of living, is vitally affected by our capacity and that of our countries with whom we trade, to earn from you. In this process, access to the United States market for us and for our customers is obviously of great importance. Small wonder then that the Canadian Government and Canadian businessmen follow anxiously every development which affects the foreign trade policy and practice of the United States.

In the years since the war, the ultimate economic objective of the United States and Canada, in world affairs, has been the same - a prosperous trading community in which barriers to the movement of goods are at a minimum and current international payments can be made without restriction. This aim has been incorporated in a variety of international instruments and declarations - of which the most notable are the Articles of Agreement of the International Monetary Fund and the General Agreement on Tariffs and Trade. And this objective has been re-affirmed in countless statements of national policy here and in Canada. Your government and ours are convinced that the strength - even the survival - of the alliance of free nations, at whose head you stand, requires a solid foundation and that this can only be constructed by enlightened policies in trade and economic affairs.

In these matters the position of the United States is clearly of the greatest importance. The rest of us - your partners - must recognize that the pace at which you move towards our common goal will be determined by yourselves alone. But it is at least equally true that your partners in this long and arduous voyage will be powerfully influenced by your example. and it would be idle to pretend that other countries - including my own - have not been concerned by the fact that your President's trade programme has not made faster progress and that your government - despite their resistance to many claimants - have felt bound to take restrictive decisions in some recent cases. When I mention Canadian anxieties on this score I do not wish to think

that we are not aware of the facts of life - of the great difficulties of gaining acceptance of policies which involve the reduction or removal of advantages to which certain domestic industries have become accustomed. We in Canada are not without experience of this problem.

Of course some progress has been made. Your Reciprocal Trade Agreements Act has been renewed. But the safeguards for United States industry which this legislation now embodies and the "escape" provisions which it acquired in passage through Congress cannot but cast additional doubt on the value of tariff concessions made by the United States. There has been some improvement, too, in United States customs administration but there is still much uncertainty which discourages the healthy development of trade. Your agricultural policies which involve import restrictions and the disposal, by special means, of surpluses abroad injure Canada and other exporters of agricultural products.

We Canadians know very well that there is no easy solution to these stubborn problems. But we trust that in dealing with them you will keep in mind the extent to which other friendly countries are concerned. I shall say no more than that.

There are of course many other fields in which your policies and actions impinge on the Canadian economy. Indeed, it often seems to me in Washington, that - in trade and financial affairs at any rate - we are affected in some way by every decision taken in the White House and on the Hill. For example, take the suggestion that, on grounds of security, the United States should limit oil imports so as to reserve the great bulk of your market to domestic producers. Such a policy if applied to Canada would strike at the profitable and mutually beneficial development of the recently discovered oil resources of our Prairie Provinces - in which the United States has invested so heavily. I find it hard to believe at a time when our military forces and defence planning are being more and more closely integrated under NATO and for the defence of this continent, that the reasonable use of Canadian oil in our two countries is other than a support to our common security. And I believe your government and most Americans would agree.

Since the war we in Canada have been steadfast in pursuit of the objective of a multilateral system of trade and payments. We have accepted the implications of this objective for ourselves and there is probably no market in the world that can be entered so freely as ours. We continue to believe that a world in which goods and services can be freely exchanged and in which barriers to trade are reduced to a practical minimum is best for Canada as well as for other countries. But the slow rate of our passage towards this international haven - and the cross-currents encountered - are causing some Canadians to sniff the wind and ask themselves whether our own course and speed are necessarily quite right for the weather through which we must sail.

In other countries of the world as well as Canada the course of the United States in its external economic relations is being closely watched. In most countries there has been an encouraging tendency in the last few years to do away with restrictions and to reduce the heavy discrimination against dollar goods which has been the rule since the war. But there are powerful forces in all countries which recoil

from the prospect of broader international competition. Anything which may be interpreted as "back-peddling" by the United States in trade matters strengthens and encourages these reactionary forces in other countries. Should they gain the upper hand, our common goal of unrestricted multilateral trade and payments will again recede and we will have to go on living in a free world dangerously divided. Persistence of such a division in economic affairs would inevitably strike at the roots of our political cohesion. Economic fragmentation would, sooner or later, serve the purposes of those whose constant endeavour is to break up the solidarity of free countries and extend the bounds of communist influence.

This we must and will avoid. Fortunately in the last few years United States accounts with the rest of the world have been balanced and more than balanced, the gold and dollar reserves of most foreign countries have been rising and they have been relying less on restriction of trade and payments. We appreciate how much it has meant for all of us that, during this period, you in the United States have been able to overcome a recession, maintain a high level of business activity and raise to new records the astonishingly high levels of your production. For this Canada and the rest of the world are thankful, for it is a major condition of our own prosperity. But the international balance has depended in part on restrictions against the dollar area and generous and substantial economic aid and other special United States payments related to the common defence effort. If, over the long haul, the economic foundations of our world are to be strong enough to bear the strains and stresses on the great superstructure of freedom, further co-operative measures to establish an even better and more normal balance of international payments will be needed. In this task the debtor countries through sound internal and external economic policies have a major contribution to make. But the position and leadership of the United States and what the United States can itself do to foster a better equilibrium may well prove critical. Canadians who have watched across the border, with admiration, understanding and relief, as you have accepted on your broad shoulders the political and military leadership of the free world, believe that, in these complicated but critical economic affairs, you will have the patience and determination to persist.

You New Englanders are very conscious of the significance of these matters. Foreign commerce is in your blood. It would seem to me that you, and perhaps especially through the organizations responsible for my being here tonight, have an important role in extending an understanding and appreciation of what is involved in these issues - for Americans and for their allies.

Three weeks ago this morning this general problem, and questions of trade and economic policy more immediately and directly affecting our two countries, were before a meeting in Ottawa of an unusual international body. The United States-Canada Joint Committee on Trade and Economic Affairs is composed of your Secretaries of State, The Treasury, Commerce and Agriculture and the Cabinet Ministers who are their opposite numbers in the Government of Canada. This highly informal Committee has neither the authority nor the desire to take decisions. But it does afford a unique opportunity for those who have the principal responsibility

for initiating the economic policies of each nation to learn of the intentions and expectations of the other. It is, also, incidentally, a direct means of discussing difficulties and sometimes of finding methods of disposing of them.

On this last occasion our Ministers had a very frank and complete exposition of the position of your government. I believe too that Mr. Dulles, Mr. Humphrey, Mr. Weeks and Mr. Benson returned to Washington with a more personal appreciation of the fact that Canada is a changing as well as a growing nation. And that is the thought I should like to leave with you.

We in Canada are in the process of re-examining the bases of our development and growth. We are holding a mirror to ourselves to find out wherein the new Canada differs from the pre-war image. We are anxiously seeking to discover what these new features imply for the future - for our domestic economy and for our economic relations with you and with the rest of the world. We are considering what in the new situation the right posture should be for a country like Canada, living close alongside you, so inevitably dependent upon you, but determined obstinately as in the past to maintain our separate national existence. We know that we will never equal you in population or in wealth and that for many years we will be pushing back a stubborn Northern frontier. We are different in many other ways. Our problems are not the same as yours and we will have to - and we will - work out our own solutions.

As the distinguished head of one of our principal universities put it the other day - "At the end of the second World War Canadians struck out on an economic path which they have followed closely to this day with considerable confidence that they were on the right road. Now they are in the mood to take another view ahead. They do so with the consciousness that although their historic associations still stand they have also their own peculiar destiny".

S/C
