



CANADA

CANADIAN WEEKLY BULLETIN

INFORMATION DIVISION · DEPARTMENT OF EXTERNAL AFFAIRS · OTTAWA, CANADA

Vol. 21 No. 47

November 23, 1966

CONTENTS

Economic Problems in		
North America	1	
Transportation Aid in Zambia	3	
Nickel Prices Rise	3	
Yukon Vessel Named for M.P.	3	
Scientific Exchange		3
Labour Force		4
Sport Goods Boom in Europe		4
Old Age Security		4

ECONOMIC PROBLEMS IN NORTH AMERICA

The following is part of an address by the Minister of Finance, Mr. Mitchell Sharp, to the annual Maple Leaf Dinner of the Canadian Society of New York, on November 14, 1966:

...I shall talk about three areas of economic policy facing us in North America.

The first is: How are we to continue the attack on barriers to international trade over — let us say, the next decade and how should we deal with other issues of commercial policy? I want to consider, in particular, what ought to be our strategy for trade policy after the "Kennedy round" has been brought to a conclusion next spring.

Second, I shall talk briefly about the problems of financing the growth of world trade.

Finally, I shall say a little about our common problem of managing and prolonging our North American prosperity.

First then, trade policy. I begin by saying that trade policy means a good deal more than tariff policy. For example, tariffs have very little to do with trade in agricultural products. Quotas, production subventions, and economic aid are much more important to the movement of agricultural products between countries than are conventional tariff barriers.

Nor have European countries or our own two countries depended upon tariffs to limit the impact of imports of certain manufactured products from new sources at highly competitive prices. This is the problem of "low-cost" or "disruptive" imports, which is being dealt with either by import quotas imposed by importing countries or export quotas negotiated with the governments of exporting countries.

A third example of commercial policy problems of our time that has little to do with conventional tariffs is how to trade with those economies of Eastern Europe and Asia in which exporters and importers are branches of the state.

Moreover, I am inclined to suspect that in the great modern market entities, such as the United States and the European Economic Community, the tariff plays a relatively small role in the shaping of the economy, or in the solving of real trading problems. In these big mature economies it is much more a taxing device.

TARIFF PROBLEMS OF SMALLER ECONOMIES

But what about the role of protective tariffs in the smaller economies, such as, say, Canada and Australia? These countries have small national markets with industries which have been stimulated over the years by protective tariff systems. In such countries, the tariff has a more decisive impact on the industrial structure and the allocation of resources.

In Canada, for example, our population is too small to provide large enough home markets to support the optimum scale of production for quite a wide range of manufactured products. At the same time, many of our potential export markets are fenced off by protective tariffs, so that we are often denied the foreign sales that for us, as distinct from the United States or the common market countries, we must have to manufacture competitively.

Canada has been a member and firm supporter of the General Agreement on Tariffs and Trade since its foundation. A nation so dependent on foreign trade

must try to ensure that world trade is conducted on as wide and as free a basis as possible. It is easy enough to state this general orientation. The real problem is how to continue to move in this direction in a realistic manner. I believe it is important that in the "Kennedy round", and in future trade negotiations, we ensure that the particular problems of the smaller economies, are adequately taken into account. This is an objective we should share in common. Canada is still the United States' largest market. Our mutual interest lies in finding methods of freeing trade in which Canada can participate enthusiastically - methods which fit Canada's circumstances.

In devising our approach to tariff negotiations, we have always shied away from any simple mathematical formula. We adopted a more selective approach to the "Kennedy round" than the United States did, and I expect we shall continue to favour the selective approach to tariff cutting in the future, simply because this enables us to participate more effectively in negotiations.

What I mean by this is that we are bound to look for those opportunities where a significant tariff adjustment in the markets of the great economic entities would provide us with the opportunity to move out of the confines of our small national markets and produce and sell on the same continental or intercontinental scale as do the industries of the United States and the European Community.

The Canada-United States Automotive Products Agreement was one essay in such a policy. We realized that to improve the efficiency of our industry we had to make a smaller range of car parts and a smaller range of vehicles. This could only be done if we had free entry to a mass market; for these products and for this industry, this meant the market of the United States. At the same time we were prepared to provide free entry in our market - albeit with some conditions and limitations for an initial period....

It is, I think, most important to understand two points. First, that the form of the automotive agreement - by which I mean the conditions we attached to free entry in Canada, and the understandings reached with each company - was peculiar to this industry. For other products, other arrangements. Second - for this industry it was free entry into the market of the United States, which was essential for Canada. For other products, free entry elsewhere may be equally important.

Let me take an example. One broad sector for which there is obvious scope for a greater international division of labour is forest products - lumber, wood products, pulp and paper. But the great expansion of markets for these products will not be confined to North America. Much of it will be in Europe and Japan. A purely bilateral trade arrangement between Canada and the United States in this sector would be second best to a tariff arrangement involving all the industrial countries of the free world. Canada and the United States would both gain much more from a multilateral than from a bilateral arrangement....

ROLE OF STATE-TRADING ECONOMIES

We must...recognize the potential importance for world trade of the state-trading economies of the Far East and of Eastern Europe. Mainland China, the U.S.S.R. and the Communist countries of Eastern Europe are becoming increasingly significant as traders. Certainly, they are important customers for us in Canada. In our experience, the markets of the state-trading countries are difficult to cultivate. Often, their willingness to buy is limited by the preoccupation of the governments of these countries with achieving bilateral balances with their individual trading partners in the West, as well as by their shortage of foreign exchange. In Eastern Europe, competition from traditional suppliers in the West - from Britain, France and Germany - is a powerful factor. These countries have been trading with Eastern Europe for many years. They know the markets; they are in a position to give effective after-sales service for their sales of capital equipment, and they are not hesitant about extending fairly generous credit facilities in order to make sales.

In cultivating these markets, much will depend on the initiative and imagination of our businessmen and financial institutions in developing trade with these countries. Recently, there have been signs of a greater readiness, on the part of some of these countries, to pursue more independent trading policies and even to restore or create, at least to some degree, some features of the market economy. I believe we should stand ready to help them trade with the free world economies, if they wish to do so.

I turn now to the trade problem of the developing countries. The ending of colonial rule and the emergence of new nations in the less-developed parts of the world has raised acute problems for the continuance of the non-discriminatory multilateral trading system as embodied in the GATT. In the United Nations Conference on Trade and Development these countries have pressed for special tariff preferences in our markets. They believe these new preferences would help them sell their manufactured products in greater volume and at higher prices. They have also pressed for international agreements to increase and to stabilize their earnings from primary products.

On the basis of our Canadian experience, I am inclined to doubt that new preferential tariff systems would be of much assistance to developing countries. On the other hand, I doubt that, if all of us scrapped our protective tariffs on goods imported from the developing countries, there would be many very serious problems of adjustment for our own industries. The real difficulty facing most of the developing countries is that their industries, by and large, are simply not efficient enough.

I find singularly unattractive the schemes now being elaborated in certain quarters in Europe for a system of tariff preferences for the developing countries limited and confined by import quotas and licensing schemes. If we must give preferences to the developing world (and I remain convinced that they would be helped very little if we did), then I don't

TRANSPORTATION AID TO ZAMBIA

The Secretary of State for External Affairs, Mr. Paul Martin recently announced new measures to be taken by Canada to relieve transportation problems experienced by landlocked Zambia as a result of the Rhodesian sanctions situation. High priority has been given by Zambia to the strategic location of fuel-storage tanks, and Canada has agreed to provide between 15 and 20 tanks at cost of \$500,000.

This announcement follows a pledge made by Mr. Martin in August that, because of economic difficulties created for Zambia by the Rhodesian situation, Canada would give \$500,000-worth of assistance in addition to the current aid programme.

PREVIOUS ASSISTANCE

Earlier, at a cost to Canada of \$300,000, Canada joined Britain in studying the feasibility of a rail-link from Zambia through Tanzania to the sea. Canada also responded to Zambia's request for an oil air-lift by providing and supporting Canadian transport planes at a cost of \$1,250,000. In addition to its regular technical assistance programme for Zambia, under which 23 students have been brought to Canada and six teachers and advisers sent to Zambia, Canada has also sent 12 air-traffic controllers and technicians to assist in the operation of Lusaka's airport.

Following the meeting of Commonwealth Prime Ministers in Lagos early this year, and under the auspices of the Commonwealth Secretariat, Canada has been represented on the special committee dealing with Rhodesian sanctions and aid to Zambia. This committee discussed contingency aid to Zambia and co-ordinates the efforts of interested governments in the field of economic assistance.

NICKEL PRICES RISE

The International Nickel Company of Canada recently approved higher prices for primary nickel throughout the world. In United States currency, this restores the 2 1/2-cent reduction made in 1962 and adds a further 4 3/8 cents a pound average increase.

STATEMENT BY T&C MINISTER

Commenting on the increases, the Minister of Trade and Commerce, Mr. Robert Winters, said that INCO had informed the Government several months earlier that it would be necessary to raise nickel prices if sufficient new ore reserves to meet world demand were to be brought into production.

"INCO", said Mr. Winters, "is the world's largest supplier of nickel. About 97 per cent of their output is exported. The demand for nickel is increasing and, unless undeveloped reserves are brought into production, supply will fall considerably behind demand, prices would rise sharply, and Canada's relative position as a world supplier will decline...."

"There has been no increase in the price of nickel since 1961," Mr. Winters added. "In fact, the price fell by 2.5 cents U.S. in 1962...."

NEW DEPOSITS

"The increases will make possible additional development of ore bodies in our country," the Minister went on. "Yesterday, the Board of INCO approved the expenditure of \$100 million to bring into production a large newly-discovered deposit at Pipe Lake in Manitoba; at the same time, they authorized the sinking of an exploratory shaft on another prospective ore body near Sudbury."

Mr. Winters noted that "the U.S. was a major consumer of Canadian nickel. During the discussions with INCO we were, therefore, conscious of the concern of the United States Government to contain inflationary pressures," he said. "This is a concern which we share, and we are satisfied that this broad consideration has been taken into account in the price adjustments which have been announced by the Company."

YUKON VESSEL NAMED FOR M.P.

Mr. Arthur Laing, Minister of Indian Affairs and Northern Development, announced recently that a motor vessel to be operated at Dawson, Yukon Territory, will be named in memory of the late Honourable George Black, a former Speaker of the House of Commons.

Mr. Black, who died in 1965, represented the Yukon in the House of Commons for many years. From 1930 to 1935 he was Speaker of the House. He came to the Yukon during the Gold Rush of '98.

S.S. *George Black* is a 40-passenger vehicle-ferry being built by a Vancouver shipbuilder at an estimated cost of \$215,950. It will be 83 feet long, with a steel hull, and its capacity will be 80 tons. It will be powered by two diesel engines.

A crew of two will operate the ferry to connect the start of the Dawson-Boundary Road on the west bank of the Yukon River with Dawson on the east bank.

SCIENTIFIC EXCHANGE

The National Research Council of Canada and the Academy of Sciences of the U.S.S.R. have renewed, for a further two-year period, an agreement for the exchange of eminent scientists and research workers.

The agreement, first negotiated in 1959, was concluded recently by an exchange of letters between Dr. K.F. Tupper, Vice-President (Scientific) of NRC, and Academician Millionshchikov, Vice-President of the Academy of Sciences of the U.S.S.R., in Leningrad. The ceremony followed discussions between officials of the Academy, and Dr. Tupper, Dr. W.G. Schneider, Vice-President (Scientific) of NRC, and Dr. J.D. Babbitt, NRC's Secretary for International Relations.

During the next two years, the Council and the Academy will exchange six scientists for a period, in each case, up to one month to give lectures, con-

duct seminars and to become familiar with research and scientific institutions engaged in research in various problems of science. The country sending the group will propose the names of lecturers and subjects of lectures; if acceptable, the receiving country will make all necessary arrangements for the visits.

Also, fourteen research workers will be sent from each country for periods up to nine months for the purpose of conducting research or of acquainting the visiting scientists with current research in the receiving country. The subjects of specialization in which the scientists intend to work will be decided between the two bodies.

LABOUR FORCE

Canadian employment was maintained during September and October, whereas in previous years it had usually declined during this period. An estimated 7,324,000 persons were employed in October, and 7,311,000 in September. Unemployment decreased by an estimated 10,000, to 195,000, during the month, whereas there is usually an increase at this time of year.

At 7,519,000 in October, the labour force was 340,000 or 4.7 percent higher than a year earlier. Employment was up 316,000, or 4.5 percent, over the year. Unemployment was 24,000 higher than a year earlier.

EMPLOYMENT

During September and October, non-farm employment showed an above-average increase, offsetting the usual large seasonal drop in farm employment. In non-farm industries, employment rose by 55,000 which compares to an average increase in September-October of 20,000 during the past five years.

The September-to-October increase in non-farm employment was concentrated in trade and manufacturing. In all other non-farm industries, employment levels remained virtually unchanged.

Non-farm employment was up 387,000, or 6.1 percent from October 1965; the largest gains were in manufacturing, in community, business and personal service and in trade. Farm employment, at 561,000, was 71,000 lower than a year earlier.

In Ontario, Quebec and British Columbia, employment levels were noticeably higher this year; in the Atlantic and Prairie regions, the year-to-year employment gains were relatively small.

UNEMPLOYMENT

Unemployment decreased by an estimated 10,000, to 195,000, during September and October. In comparison, the change in unemployment over the past five years has varied from an increase of 40,000 to a decrease of 5,000. The October estimate was 24,000 higher than the figure recorded a year earlier.

About three-quarters, or 144,000, of the total number of unemployed had been out of work for three months or less. Some 24,000 had been seeking work

from four to six months, and 27,000 for seven months or more.

Unemployment in October represented 2.6 per cent of the labour force, compared to 2.4 per cent in October 1965 and 3.7 per cent in October 1964. Seasonally adjusted, the October 1966 unemployment rate was 3.5 per cent.

SPORTS GOODS BOOM IN EUROPE

Canadian sporting goods manufacturers have recently scored heavily in the European market. Direct sales of \$180,000 and orders expected to total a further \$3 million are the result of the participation of 18 Canadian companies in Europe's largest sporting-goods trade show, SPOGA (Internationalen Fachmesse fur Sportartikel, Campingbedarf und Gartenmobil) in Cologne, Germany last month.

The Canadian exhibit, sponsored by the Department of Trade and Commerce, included winter-sporting goods, archery equipment and fishing tackle, camping equipment, barbecues, outboard motors, Scuba-diving equipment and hunting-knives. Of particular interest to the European buyers were Canadian-made motorized tobaggans. "Snowmobiling", which is well established in North America, is becoming a popular sport in Europe.

SPOGA attracts over 18,000 buyers annually from Europe and many from the United States. This was the third consecutive year that the Department had sponsored a Canadian exhibit at the trade fair.

OLD AGE SECURITY

Since 1952, when it was first instituted, the old age security pension has been of inestimable value to thousands of elderly Canadians. By its very existence, the pension is an assurance of the nation's concern for the welfare of its senior citizens. As its title suggests, the pension helps to bring security to the aged in a time when security is a matter of major concern.

LOWERED AGE REQUIREMENT

In order to make the pension available to Canadians at their average retirement age, the Canadian Parliament, in 1965, approved legislation to lower the pensionable age from 70 to 65. Beginning in January 1966, the pension of \$75 a month became payable to those aged 69 and able to meet residence requirements. Next January, it will be payable to those aged 68; in 1968, to those aged 67, and so on until in 1970, the pension will be payable at age 65.

COSTS INVOLVED

The cost of this reduction in age is considerable — the yearly budget for old age security is being increased by approximately \$100 million as each year about 100,000 pensioners are added to those who

would otherwise be eligible. With the increase, a total of more than \$1 billion will be paid to more than 1,100,000 pensioners in this year alone.

CANADA PENSION PLAN

Frequently the Old Age Security plan is confused with the Canada Pension Plan. Although the two plans are complementary, they are distinct and separate. The Canada Pension Plan will furnish to Canadians a pension related to the contributions and the earnings they have made during their years of employment; Old Age Security provides a flat-rate pension to Canada's elderly people. The Old Age Security pension is paid solely on the basis of age and length of residence in Canada.

* * * * *

ECONOMIC PROBLEMS IN NORTH AMERICA

(Continued from P. 2)

see much to be said for attaching all sorts of conditions to such preferences and creating a vast new bureaucratic apparatus to regulate preferential entry to our markets. Such a development would be welcomed only by the protectionists among us....

INTERNATIONAL PAYMENTS SYSTEM

Further advance in the trade field must be accompanied by progress in improving the international payments system. There is not much point in pressing ahead with the removal of barriers to trade if the world financial system is not capable of supporting the increased volume of trade we hope to achieve, and of meeting the balance-of-payments problems that many countries face from time to time....

The international payments system has been subjected to severe strains in recent years as a result of pressures on the major reserve currencies. So far, these strains have been successfully met through the close co-operation of the monetary authorities and the IMF. But these have been essentially *ad hoc* measures. Their success has been due to the ability of the authorities to convince the international financial community that the management of the international system was in firm, competent hands. The longer governments take to settle their differences on basic improvements in the system, the more they leave the burden of short-term financing and adjustment to *ad hoc* arrangements.

Why have countries been unable to reach agreement on these vital questions? Differences over basic political objectives have quite clearly been a contributing factor. But they do not provide the whole answer. There is a genuine concern in Europe that the collective ability to create new international liquidity would constitute a temptation to many countries to postpone or evade actions that are needed to run their own economies properly.

We in North America tend to criticize Europeans for adhering to policies and arrangements which make it harder for us and for the less-developed countries to correct our balance-of-payments deficits. Many Europeans on the other hand, believe that the English-

speaking countries - and they include Canada in that category - have a basic inflationary bias and would press for the creation of excessive amounts of international liquidity in order to cover continuing balance-of-payments deficits that should be eliminated or financed on a long-term basis.

Despite these differences over the creation of new reserves, we have in recent years made progress in the Organization for Economic Co-operation and Development, and in the Monetary Fund, towards a better understanding of the means by which deficits or surpluses in international payments can and should be adjusted. The system of surveillance of each other's economic policies and balance-of-payments positions is laying the basis for further advances in this area....

PROBLEMS OF PROLONGED EXPANSION

During the 30 years since the depths of the depression, we have come to understand much better the workings of our North American economy. Economists have produced much better methods of analysis for us. Statisticians have produced more and better statistics, and should produce even more and bring them out more quickly. Informed and serious economic forecasting has become common in business as well as in government. Politicians have learned much more about economies - even if they do not always reveal it or apply it. Public opinion has accepted the need for a much more sophisticated approach to government budgets, in terms of their effects upon the economy. We all - or nearly all - have come to recognize the need for competent and strong central banks, by which we are now so well served.

It is, I think, largely as a result of the culmination of such developments that we have been able to achieve in North America - and in Europe with some variations - the long period of economic expansion since early 1961. It has brought us to a level of production and prosperity the like of which has never been seen before. Certainly we have our economic problems still - balance-of-payments problems - problems of unemployment arising from a lack of fit between our labour forces and the demands of our markets - problems of productivity for us in Canada in trying to keep up with the fast pace you set here in the States. But we are fortunate to be able to approach these persistent problems in the context of a high level of demand and production.

We face, however, two major problems which arise from the very success we have had in getting where we are. They are inter-related. The first is to prolong our prosperity - to make a successful transition from very rapid expansion to steady growth without bringing about a recession. This seems to us in Canada to require much more difficult judgements and more careful management of the total of expenditures than did the initiation and continuation of our expansion during the past half dozen years. In recent years, we have all been increasingly apprehensive that our abnormally long period of uninterrupted expansion would come to an abrupt end. Now we find the outlook for 1967, particularly in regard to business capital expenditures, very difficult to assess with confidence. Last spring in Canada we tried by budget measures

as well as by credit policy to exercise a moderating influence on the rapid expansion of business investment, without reversing it. Our efforts appear to have succeeded. We also restrained the expansion in consumer expenditure by reversing the income tax cut we had introduced in April 1965.

At present in Canada we are having to plan further fiscal action to counteract the effects of a number of decisions made to increase public expenditures, and to maintain an overall budget position appropriate to the economic situation.

Both you and we have federal systems which complicate our public finances and make it more difficult to obtain a correct and timely overall fiscal policy. In Canada, these federal-provincial considerations are highly important and highly controversial. Our provinces and municipalities are responsible for many of the functions of government - education, health, highways, urban development for example - which require rapidly increasing expenditures to keep up with our rapidly growing population and labour force. Naturally, they find the Federal Government, which has its own responsibilities, a serious competitor for revenues. We meet frequently with provincial representatives to discuss these issues in order to co-ordinate our fiscal policies and actions. We are making progress. We have recently, for example, worked out much improved arrangements for the Federal Government to equalize and stabilize the revenues of the provincial governments, which will

further enable them to meet their responsibilities and harmonize their actions with ours in Ottawa. All of us value highly the opportunities our provinces and municipalities have had to borrow here in New York, and we wish to conduct our affairs in such ways as will merit a continuation of the confidence of your investors.

Our second problem in managing our prosperity - indeed our most serious problem in Canada as no doubt it is here - is to avoid inflation while we are striving to maintain a steady growth. Our economies, our societies, have not yet learned to live with prosperity. Once we achieve a high level of production and employment there is a well-nigh universal demand for too much too soon. At such times many of the groups in our society have strong bargaining powers, which must be used with moderation if we are to avoid serious increases in costs, in prices, in public expenditures and taxes. This presents problems to all of us - business, labour, consumers and government. They are problems both in economics and in politics.

We in Canada are grappling seriously now with this central problem. It requires understanding and action on the part of many. We have been impressed with the degree of success which you in the United States have had in recent years in achieving prosperity without inflation. We aim to do as well, even though our problems and our methods may not be the same.

Further advance in the field must be a...
paid by...
payments system...
also...
world market system is not capable of supporting...
the increased volume of trade we hope to achieve...
and of meeting the balance-of-payments problems...
that many countries face from time to time...
The international payments system has been...
subjected to severe strains in recent years as a result...
of pressures on the major reserve currencies. So far...
these strains have been successfully met through the...
close co-operation of the monetary authorities and the...
IMR. But there have been essentially no discussions of...
their success has been due to the ability of the...
the...
confronted with the management of the international...
system...
government take to settle their differences on...
improvements in the system, the more they leave the...
burden of short-term financing and adjustment...
and...
Why have countries been unable to reach...
many...
part...
contributor...
answer...
the...
likely...
country...
needed to run their own economies properly...
We in North America tend to criticize European...
for...
it...
to...
to...