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Speech by the Minister of Finance, Mr. Walter L. Gordon, to the Sixth Annual Industrial and Municipal Relations Conference, on the Theme "United States Investment in our Communities and Industries", Peterborough, Ontario, October 28, 1964.

I welcome this opportunity to speak to you this evening, especially in view of the theme you have chosen for your meeting....

For some time this question of massive non-resident investment in Canada has been widely debated in academic, business and editorial circles. It was the subject raised most often in the briefs and submissions presented in 1955 and 1956 to the Royal Commission on Canada's Economic Prospects, of which I was chairman. That Commission, in its reports dated December 1956 and November 1957, was unanimous in pointing out both the great benefits of foreign investment and also some of the dangers. Referring to foreign-controlled subsidiaries and branch plants, the Commission suggested:

"(a) Wherever possible, they should employ Canadians in senior management and technical positions, should retain Canadian engineering and other professional and service personnel and should do their purchasing of supplies, materials and equipment in this country.

(b) They should publish their financial statements and make full disclosure therein of their Canadian operations.

(c) The larger Canadian subsidiaries should sell an appreciable interest (perhaps 20 per cent to 25 per cent) in their equity stock to Canadian investors and should include on their boards of directors a number of independent Canadians."

The Commission said that it was desirable that Canadian control of the Canadian chartered banks and life insurance companies should be maintained. It suggested that appropriate action be taken to prevent any substantial measure of control of these institutions from coming into the possession of non-residents.

Now, seven years later, we are just beginning to come to grips with the proposals of that Royal Commission. Not everyone agrees with them. And yet most of us can agree, I think, upon the importance of the subject. That is why I am happy to see you have chosen this theme for your discussions. I hope many more organizations will follow your example. The views and conclusions which Canadians form on this subject, and the resulting decisions which they and their governments take, will have a vital bearing on the future of our country.

Let me begin by saying that I have no fears about the kind of foreign investment that can be paid off at some time in the future, out of profits or from rising incomes. After all, the United States economy got its real start in the last half of the nineteenth century with foreign capital -- mostly British capital. But the great bulk of that capital was in a form which could be paid off at maturity and, in fact, this was what happened.

One change that was made in the Canadian tax laws in the summer of 1963, which did not attract as much attention as I believe it deserves, was the relief from withholding tax on interest paid on Canadian bonds and debentures sold to non-resident institutions that are exempt from tax in their own country.

For example, most American holders of Canadian bonds pay U.S. taxes. They can offset most or all of the Canadian withholding taxes on the interest they receive from the taxes they pay to Uncle Sam, so they are not out much, if anything. If we were to drop our withholding tax in such cases, the only effect would be to reduce the revenues of the Canadian Treasury in order to benefit the United States Treasury. That would be an act of generosity which this country cannot afford and which our American friends are too affluent to need.

But the fast-growing pension trusts in the U.S. do not pay taxes in that country. That being the case, it has not been in their best interests to buy Canadian bonds on which the interest was subject to Canadian withholding tax. It was to secure access to this new and great potential market for our bonds that the change in our tax laws was made last year. Now, after obtaining the necessary certificate from the Department of National Revenue, the city of Peterborough, for example, is in a position to sell its debentures to a U.S. pension trust without being required to deduct the 15 percent Canadian withholding tax from the interest payments. Not only will this make Canadian bonds more saleable but it will help to keep interest rates as low as possible.

But what worries some people, myself included, is that so much of the foreign capital invested in Canada is not in the form of bonds or other fixed-term securities, which can be paid off some day, but, instead, is in the form of equity investments that can never be paid back if the foreign owners do not wish to sell. The most recent figures available show that at the end of 1961 our total foreign liabilities had reached $27.8 billion, and nearly half of that amount, $13.7 billion, was in the form of direct investment in foreign-controlled branch plants and subsidiaries. This means that much of Canadian industry -- certainly a very great deal of our big industry -- is controlled by absentee owners more or less indefinitely. I do not believe this to be healthy.

In the early fifties, at a time when a broad expansion of Canadian industry in all sectors was under way, but, most importantly, in the resource sector, one could begin to point to key Canadian industries in which a relatively few companies controlled by non-residents pretty well dominated the industry. The role of non-resident firms was pre-eminent, for example, in the oil and gas industry. Foreign-controlled firms were dominant also in aluminum, iron ore, asbestos, in most sectors of the chemical industry, and in at least three important secondary manufacturing industries -- automobiles, electrical apparatus and appliances, and rubber products.

Since the early fifties, direct investment from abroad has continued to flow into Canada in significant volume. In certain key sectors of our economy, foreign ownership and control has reached very high proportions. The latest figures available, which are for 1961, indicate that non-residents control almost 70 per cent of the value of investment in petroleum and natural gas, 59 per cent in mining and smelting, and almost 60 per cent in manufacturing. This means not only that the key decisions respecting Canadian industry are made by people who live outside our borders but also that our industrial companies are affected directly by events and conditions that prevail elsewhere. For example, the largest company in Ontario was closed down recently because its parent company in the United States was strikebound....

There are those who say the advantages we gain from these relationships far outweigh the disadvantages. Certainly, foreign investment in the key sectors of the economy I have mentioned has helped the development of our country faster than it might otherwise have happened. It has given us access to technological, scientific and managerial skills that otherwise it would have taken us longer to acquire. And, in the case of some of our great producers of industrial raw materials, it has provided the assurance of markets without which some of the developments would not have been able to proceed.

Nevertheless, no other economically-advanced nation has such a large proportion of its industry controlled from outside its borders. Let us not pretend the advantages I have mentioned have been an unmitigated blessing.

Some of our greatest difficulties in Canada have been caused by the fact that, year after year, we have bought more goods and services abroad than we have sold abroad. The difference is known as the current-account deficit in our balance of payments with other countries. This current-account deficit has been offset by capital inflows -- including both the capital we have borrowed, which we hope to pay off in the future, and the capital invested here in Canadian subsidiary companies and Canadian resources.

This situation -- the incurring of a deficit in our transactions with other countries -- has been going on for years. In good times it hasn't seemed to matter so very much. The capital inflow has helped to develop the country quickly and borrowing for this purpose can properly be justified. It is more questionable, perhaps, when it means transferring to non-residents equity investments and the right to make decisions that affect our lives and interests.

But in bad times it makes no sense whatever for Canada to buy more goods and services abroad than we sell abroad. From 1958 to 1962, for example, we had unused resources and great numbers of idle people in this country. And yet we kept on going into debt to foreigners and selling off our Canadian companies to them in order to pay for the things we wanted to import. This did not make sense. In effect we were importing unemployment.

The situation is much better now than it has been for some time, but we have a considerable way to go before any of us can feel satisfied. We are still running a substantial deficit on current account in our balance of payments -- and, while unemployment is lower now (on a seasonally-adjusted basis) than at any time since 1957, there are still too many people unemployed in some parts of the country.

The best way to correcting this situation is not to restrict imports but to expand our export trade. In practical terms, if we are to be successful in doing this, we shall have to increase our exports to the United States. (We have a surplus on current account with other countries and a huge deficit in our transactions with the U.S.) Furthermore, we shall have to increase very considerably our exports of processed and fully-manufactured goods. This must be a major goal of Canadian economic policy.

But, as I have said, some 60 per cent of Canadian manufacturing industry is controlled by non-residents, mostly Americans. And most of their wholly-owned subsidiary companies were established here to service the Canadian market -- and at one time to take advantage of Commonwealth preferences. We know there must be greater rationalization, greater concentration, greater specialization, all aimed at mass production, and a greater share of the North American market. In other words, we know we must increase our exports to the U.S. That is why so much stress has been laid on the automobile programme. It is imperative that we obtain for Canada a fair share of total North American production. Our difficulty is to persuade the absentee owners of these Canadian subsidiary companies to reorganize them, to streamline their production and to permit them to export to other countries, including the United States, if necessary, in competition with their parent companies.

If the basic decisions for so many of our manufacturing companies continue to be made in the United States (and in other countries), we may not be successful in bringing about the kind of reorganization, the kind of expansion and the kind of new thinking that will be needed. This is the crux of the problem we are faced with.

That was the reason why last year's budget contained measures to encourage wholly-owned subsidiary companies controlled abroad to take in Canadians as partners in both the ownership and direction of their affairs. This was done in two ways -- by a lower withholding tax on dividends paid to non-residents and by very valuable tax incentives for industrial expansion. The purpose is to bring more Canadians into the decision-making processes of these companies, from the boards of directors on down through the lower management levels. Such a development will greatly increase the likelihood that these firms will be sensitive and responsive to Canadian interests and Canadian objectives.

Several firms have acceded to the expressed wishes of the Canadian Government in this matter... The Government has made it very plain it expects other companies to follow these examples.

More recently, the Government has proposed a further step in its programme of retaining and gradually of increasing Canadian control of key sections of the economy. Legislation affecting future foreign ownership of federally-incorporated life-insurance, trust and loan companies has been introduced in Parliament. It has been announced that a similar policy will apply to chartered banks. The legislation will provide for continuation of existing Canadian control over these financial institutions. The importance of this step is obvious. It will ensure that the direction of the investment of the huge pools of savings in the hands of these companies will rest with Canadian boards of directors and management -- not with people in other countries who do not have the same close knowledge of, and interest in, Canadian development.

The legislation will also widen the investment powers of insurance, trust and loan companies, including the ability to invest a greater proportion of their assets in common shares. It is hoped and expected that the easing of present restrictions will encourage these institutions to use their funds to increase the degree of Canadian ownership in enterprises in this country. The new measures should reinforce the policy begun last year to encourage Canadian partnership in foreign-controlled companies.

These new policies which have been introduced by the Government in the last year and a half are fair and they are reasonable. They do not constitute, as some have suggested, a harsh and repressive climate in which foreign investors cannot develop with and profit from our country's growth. We should not -- and have no desire to -- penalize established companies which have invested in Canada in good faith. And we must bear in mind that, for some time to come, Canada will need foreign capital in one form or another.

Furthermore, the measures we have taken are far from being unusual or unique. Other industrialized countries have acted to influence and direct the nature and degree of foreign investment in their industries. Among them are such countries as Switzerland, France, Sweden and Japan. Other countries have taken the further step of ensuring that their financial institutions do not pass into non-resident hands. And yet none of these countries is in quite the same situation as Canada, where the extent of foreign control is much greater and where the bulk of it rests within a single, very powerful and vigorous, though friendly, next-door neighbour.

Let us be realistic about this question. There is a price to be paid for Canadian independence. So far in our strenuous but, for the most part, successful history, Canadians have been willing to pay that price when the issues were made clear to them. In this case the issue we have been discussing is not easy for most people to comprehend. Let me put it to you this way:

There is no country in the world that can make any pretense of being independent if it does not control its own communications media, its own financial institutions and, in one way or another, the general nature of the decisions made by those who direct its basic industries. We Canadians must place ourselves in this position if we wish to retain our national identity and a reasonable amount of national independence. In this, to a large extent, we should equate political independence with economic independence. I say this because no nation, including Canada, can pretend to be independent politically if it surrenders too much economic power to the residents of other countries.

Sir Wilfrid Laurier said the twentieth century belonged to Canada. That may have been a bit of an exaggeration. Perhaps Sir Wilfrid, if he had lived, would have avoided some of the mistakes that have been made by those who followed in his footsteps. Nevertheless, I believe it is not too late for Canadians to be the ones to benefit the most from the great things that can be achieved in our country in the decades ahead. To do so, we shall have to be prepared to insist upon our national independence and all that this entails. Let's not settle for an easy life and second place. Let's be willing to make some hard decisions. Let's take full advantage of the tremendous future that can be ours if we have the courage and the will to take advantage of it. Let's do whatever we must do to be proud to call ourselves Canadians.

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