

Bulletin

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REVIEW OF ECONOMY IN 1968

Mr. Louis Rasminsky, Governor of the Bank of Canada, recently submitted his 1968 report to the Minister of Finance. Some of its highlights follow:

The performance of the Canadian economy last year was satisfactory in many ways, but it was marred by continuing inflation. The period of subdued growth which had lasted from the spring of 1966 to the final months of 1967 gave way to sharply accelerated economic expansion in 1968, led by an abnormally strong demand for Canadian exports. Real output appears to have risen by some 6 per cent in the course of the year, a rate which approached the average of the years of rapid expansion from 1961 to 1966. Employment also grew strongly, and the upward drift in the national unemployment rate, which had carried it from a 3 1/2 percent average in 1966 to nearly 5 1/2 per cent in the summer of 1968, was checked; unemployment declined in the latter part of the year and in January 1969. This occurred notwithstanding a large increase in the labour force and a welcome increase in average output per worker. Although imports grew rapidly in 1968, the increase in exports was substantially greater, especially to the United States where demand pressures were strong, and our deficit on current account was less than it had been for many years.

In 1967, there had been some hopeful signs that price inflation was gradually being brought under control. In 1968, however, little further progress seems to have been made. Indeed, between the fourth quarter of 1967 and the fourth quarter of 1968 the price index of all goods and services, as measured in the gross national product, rose by 4 per cent,

somewhat more than in 1967. The consumer price index has also continued to rise at the rate of about 4 per cent a year, with no clear evidence of any tendency to slow down.

The stubbornness of the inflation problem in the face of levels of unemployment, which have ranged between about 4 1/2 and 5 1/2 per cent during the past year or more, is very disappointing. It seems clear that the attitudes of all groups in the community to price and income increases within their influence are affected not only by the levels of unemployment and idle plant capacity but also by expectations about future price trends and by the degree of buoyancy in business conditions and in employment opportunities. It should be pointed out, moreover, that although unemployment rose substantially in the Atlantic Provinces and Quebec in 1968, it was not significantly higher in the rest of the country at the end of the year than it had been at the end of 1967.

EXTERNAL PRESSURES

A major factor that made it more difficult for Canada to achieve good price performance in 1968 than in the immediately preceding years was the marked intensification of demand pressures from beyond our borders, particularly from the United States. By the

end of the year, unemployment in that country had fallen to the lowest level in 15 years; the rate of price increase in 1968 was the highest since the Korean war. In the course of the year the U.S. consumer price index rose by 4.7 per cent compared to a rise of 4.1 per cent in Canada. This meant that international competition imposed less restraint on price increases in Canada than had been the case in earlier years. There are, however, some signs that we may be moving towards an improved situation in so far as external influences on our prices are concerned. In the United States a 10 percent surcharge on personal and corporate income tax became effective at mid-year and was accompanied by cuts in planned Government expenditure. The full effect of these measures has not yet been felt, although by the fourth quarter there was a noticeable slowing down of the growth of consumer expenditures. Monetary conditions in the United States, which had eased during the summer, tightened in the latter part of the year and have remained tight in the first months of 1969. While no one can be certain how effective these measures will be, it is encouraging that United States economic policy now appears to be clearly aimed at reducing demand pressures.

It is difficult to form a precise judgment as to the extent to which Canada's current inflationary problem originates outside the country and the extent to which it is due to domestic causes. However, one can hardly avoid the conclusion that even though unemployment averaged about 5 per cent last year the total volume of spending in Canada was at too high a level to be compatible with price performance which, in the prevailing circumstances, would have been acceptable. This conclusion is not a welcome one: we all naturally wish to bring inflation under control with a minimum of unused resources and unemployment in the economy. It is for this reason that I have advocated on earlier occasions that it would be desirable for the Government to make a systematic effort to bring the influence of informed public opinion to bear on decisions regarding increases in prices and incomes.

PRICES AND INCOME COMMISSION

I welcome the start that has been made in this direction by the Government's decision to try to reinforce the traditional policies of economic stabilization by establishing a Price and Incomes Commission. This decision has introduced a new and potentially constructive factor into the situation. For the first time there will be an official body charged with the responsibility of continuous analysis of price and cost developments, of making policy recommendations, and of educating opinion as to what actions and policies are consistent or inconsistent with reasonable price stability. It is encouraging to know that this Commission will soon be set up and begin to function.

As regards the traditional methods of economic stabilization, that is, fiscal and monetary policies,

their stance is now such as to moderate demand pressures. The monetary policy which is being followed is one of restraint...The Government's budgetary deficit and its cash requirements in 1968 turned out to be much larger than had been planned, but the October budget provided for a balance in the fiscal year ending March 31, 1970, and for a considerable reduction in the Government's cash requirements. What is required now to deal with the problem of inflation is not, therefore, a drastically different setting of policy but rather the determination to persist with the present one - and if necessary to reinforce it from time to time - for as long as this is needed to reduce the domestic pressures that have contributed to the recent rates of price and cost increase.

This determined approach to policy is essential because inflationary expectations have now become very strong. The persistence of rising prices has resulted in a growing tendency on the part of many sections of the public to think of inflation as a normal characteristic of our society. This has developed to the point where firm evidence of progress in checking inflation will be required to break its hold on the economy....

MONETARY POLICY

...For most of the first half of 1968 the Bank gave top priority to the defence of the exchange value of the Canadian dollar. Bank rate reached a peak of 7 1/2 per cent in mid-March and was maintained at that level to the beginning of July. Market interest rates rose to the highest levels that we had ever experienced in this country up to that time. Bank liquidity declined and the rate of expansion of the banking system slowed markedly. The defence of the Canadian dollar - which involved many important measures in addition to those related to monetary policy - turned out to be completely successful and, by early summer, Canada's external financial position was again strong.

Once the exchange crisis in Canada had been overcome, a move to lower interest rates was generally expected and considered to be appropriate. Moreover, the view was developing that inflationary pressures were on the wane. Unemployment in Canada ranged between 5 and 5 1/2 per cent in the summer and a marked slowing of economic growth in the United States was widely regarded as imminent. As the Bank of Canada moved to make monetary policy less restrictive, and reduced the bank rate in three steps from 7 1/2 to 6 per cent, the banks bought Government of Canada securities in large amounts. Market rates of interest declined, though they did not fall back to the levels that had prevailed before the exchange problem developed. As a result of the large purchases of Government securities, there was a sharp increase in bank liquidity and in the total size of the banking system.

By the end of the summer it had become evident that the widely expected change in the economic

CANADA-THAILAND TRADE PACT

The Secretary of State for External Affairs, Mr. Mitchell Sharp, has announced that a commercial *modus vivendi* between Canada and the Kingdom of Thailand was signed in Bangkok on April 22. Mr. Jean-Luc Pepin, Minister of Industry, Trade and Commerce, signed on behalf of Canada and His Excellency Thanat Khoman, Minister of Foreign Affairs, signed for Thailand. The agreement provides for an exchange of most-favoured-nation customs tariff treatment between the two countries.

Over the past few years, Canada and Thailand have enjoyed increasingly close relations. During the past decade, Thailand has sustained economic progress and, last year, achieved a growth rate of 8 per cent. The conclusion of the recent pact is consistent with Canada's policies of increasing relations with the nations of the Pacific, and expanding trade relations with developing countries, as well as with its commitments in international

organizations to assist growing countries in their efforts to accelerate economic growth. It is hoped that the new agreement will provide a basis for an expansion of mutually advantageous trade between Canada and Thailand.

Thailand is not a member of the General Agreement of Tariffs and Trade and, until the signing of the *modus vivendi*, was one of the few remaining countries whose goods were subject to the general tariff in Canada. Though the volume of Canadian trade with Thailand is relatively small, Thailand is a growing market for Canadian goods. Canadian exports to Thailand have increased from \$2.8 million in 1963 to \$7.1 million in 1968. In recent years Canadian exports to Thailand have included chiefly aircraft, non-ferrous metals and metal products. Canadian imports from Thailand have also grown from \$583,000 in 1963 to \$2 million in 1968. Over 75 per cent of Thailand's exports to Canada consists of tin products.

CABINET CHANGES

Prime Minister Trudeau announced on May 5 a reallocation of departmental responsibilities of three Cabinet members: Mr. Donald C. Jamieson, formerly the Minister of Supply and Services, becomes the Minister of Transport, replacing Mr. Paul T. Hellyer, who recently resigned from the Cabinet; Mr. Robert K. Andras continues as a Minister without Portfolio but is now responsible for housing; and Mr. James Richardson, formerly Minister without Portfolio, becomes the Minister of Supply and Services.

OIL DRILLING IN ARCTIC ISLANDS

Mr. Jean Chrétien, Minister of Indian Affairs and Northern Development, has announced that a deep exploratory well has started to test for oil in Canada's Arctic Islands. The Minister said that Panarctic Drake Point L-67 "spudded in" on April 19, on Melville Island. The well, which will reach a depth of 10,000 feet, is situated about 1,500 miles north of Edmonton and 1,000 from the North Pole.

The well is the first of more than 15 that will be drilled during the next three years on the Arctic Islands by Panarctic Oils Ltd., a firm in which the Federal Government holds a 45 per cent equity interest.

The Drake Point well has been located on the basis of extensive seismic investigations on Melville Island conducted by Panarctic in the spring and summer of 1968. Seismic exploration already under way this year on other Arctic Islands will determine the sites of other wells to be drilled by Panarctic. Other firms have advised the Department of their plans to drill in Canada's Arctic Islands this summer.

In announcing the beginning of drilling at Drake Point, Mr. Chrétien cautioned that oil discoveries should not necessarily be expected in these initial programmes, but added that oil would be discovered eventually. He said that active exploration of oil and gas lands in the Arctic Islands, in addition to extensive activities by other government agencies, demonstrate effective occupation and ensure Canada's sovereignty over this northern region.

MILAN MUSIC PRIZE

Marc Fortier, a Montreal composer and orchestra leader, recently won the grand prize for composition in the Fernando Ballo competition of the Milanese academy "I pomeriggi musicali" for his work entitled *Un doigt de la lune*. The Fernando Ballo competition is open each year to any composer in the world.

The première of *Un doigt de la lune*, the overture to a suite, in two movements entitled *Jeux des énigmes* and *Indigo*, took place in Milan, on May 3, under the direction of Nino Sanzogno, well-known Italian orchestra leader. The work will be performed again on radio and television, as well as at the festival in Venice.

Marc Fortier, who is 28 years old, is a graduate of the Montreal Conservatory of Music, in writing and composition. He is at present director of the department of music on the Chambly Regional School Board, and musical director of the Théâtre Lyrique de Laval, Quebec.

Air Canada took delivery of 25 aircraft in 1968, increasing the number of jets to 58 and the total fleet to 109.



At work in Canadian Westinghouse.



Inside one of Hamilton's massive steel works.

HAMILTON - CANADA'S STEEL CITY

Set strategically midway along the St. Lawrence Seaway-Great Lakes oceanic transportation artery, Hamilton - Canada's steel-producing city - is bustling with activity.

As downtown areas come alive with bold renewal programmes, big business buildings, large scientific and industrial parks are developed and the city's cultural life invigorated, more and more diversified commercial enterprises are added to Hamilton's industrial might.

NATURAL HARBOUR

Here, at the extreme western end of Lake Ontario, where two thirds of the nation's \$1,350,000,000 worth of primary iron and steel is produced, vessels from round the globe can berth alongside miles of excellent port facilities situated in one of the world's finest natural harbours. Behind the busy city is a scenic mountain escarpment and for miles on either side stretches a rich and fertile vista of dairy farms, fruit orchards and vineyards, famed for their beauty and lush harvests.

Apart from the massive steel-producing plants - ever growing in modernity and capacity as large capital investment is made by the companies - Hamilton is renowned for its fine university, McMaster, home of Canada's first privately-owned nuclear reactor and one of the country's foremost halls of learning.

TIME FOR LEISURE

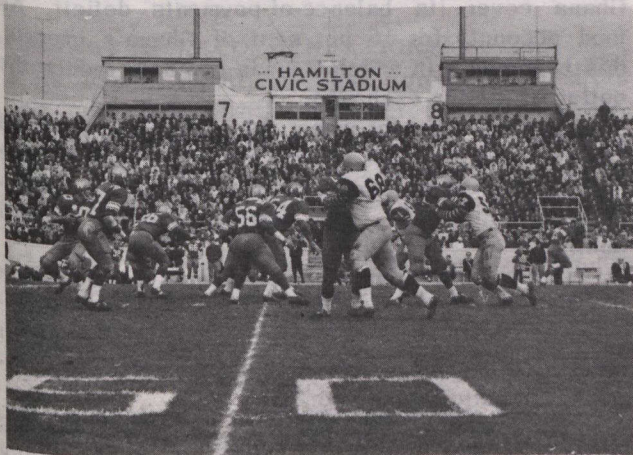
Metropolitan Hamilton's population of half a million has a variety of sports and pastimes within its reach. Among the 240 acres of city parks is downtown Gore Park where, on sunny days, passing spectators give advice and a running commentary on the outsize checker games. In winter, ice-yachting across the harbour competes with skiing on the nearby slopes and, in summer, golf vies with the busy activities of the Hamilton Yacht Club. The Royal Botanical Gardens - 1,820 acres of nature trails, flowers and rock gardens - and nearly 2,000 other acres of parkland managed by the city, give Hamiltonians pleasant grounds for idling away their leisure moments.

Hamilton, Ontario - Canada's steel city - situated in the centre of the emerging megalopolis, which experts predict will stretch from Chicago in the west to Quebec City in the east, will lie in the very hub of tomorrow's North American cultural and industrial development.

(From National Film Board
Photostory No. 493.)



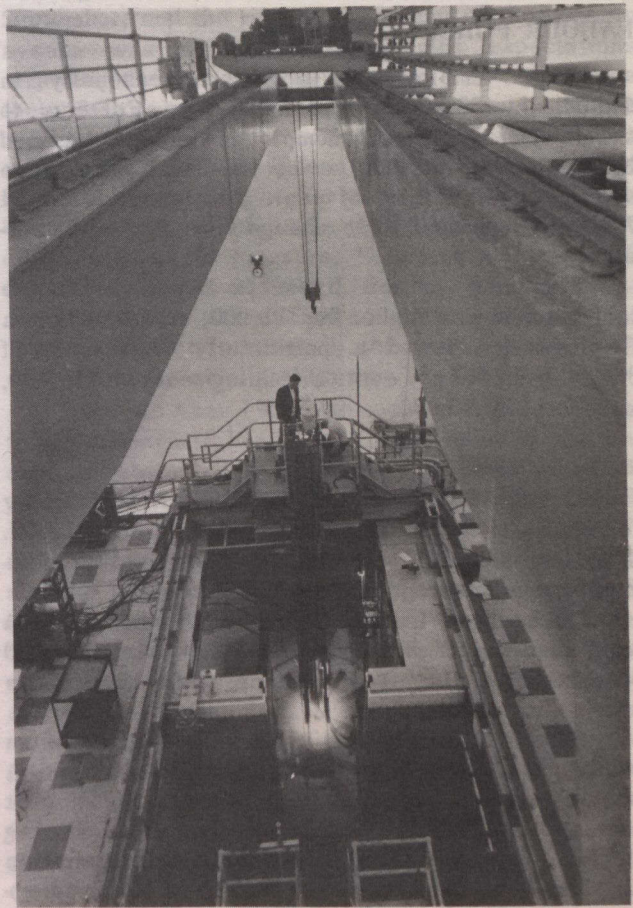
Yachts cross Hamilton Bay where world's shipping does business.



The Hamilton Tiger Cats.



Hamilton's City Hall.



McMaster University's nuclear reactor.

NUCLEAR STORY ON FILM

Two aspects of Canada's nuclear story are presented in new colour films now being distributed through National Film Board offices across the country. The films, *Douglas Point* and *Isotopes in Action*, each just under 30 minutes long, are available in English and French. Their primary purpose is to show something of the progress made in Canada's nuclear programme.

Douglas Point follows Canada's first commercial size nuclear-power station from the start of construction through to the generation of electric power. By means of animation the film explains how a nuclear power reactor works.

Isotopes in Action shows how radioactive isotopes, produced and marketed by Atomic Energy of Canada Limited, are being put to use in medicine, industry and agriculture. Diagrams illustrate what isotopes are and how they are produced. Sequences depict some of the things they are capable of doing.

Also available through NFB offices are two other AECL films, *Atomic Energy in Canada* (1968 version) and *Nuclear Power Demonstration*. Each is in colour, is available in English and French and runs for about 30 minutes.

LABOUR FORCE

Total employment increased seasonally in Canada by 33,000 to 7,471,000 from February to March. The number of unemployed persons declined by 25,000 to 448,000, a decline that was above average for this time of year. The labour force, at 7,919,000, showed little change from that of February.

Compared to the figure in March 1968, the labour force was higher by 311,000, or 4.1 per cent. Employment showed a particularly large gain of 351,000, or 4.9 per cent. Unemployment, at 448,000, was down by 40,000.

EMPLOYMENT

Farm employment increased by 12,000 from February to March. Non-farm employment was up by 21,000. The largest gains occurred in trade and in community, business and personal service.

Quebec and British Columbia showed gains in total employment since February (19,000 and 14,000 respectively). In other regions there was little change.

Compared to figures of a year ago, non-farm employment was higher by 347,000. Community, business and personal service showed the largest increase (119,000), followed by manufacturing (90,000), trade (40,000), public administration (31,000), and construction (22,000). Farm employment was virtually unchanged.

All regions shared in the year-over-year gain in employment. The largest increase took place in

Ontario (165,000), while smaller gains occurred in Quebec (84,000), the Prairie region (55,000), British Columbia (34,000), and the Atlantic region (13,000).

UNEMPLOYMENT

Unemployment in March was considerably lower than that of a year earlier, though still higher than that of the same month in 1967. Relative to the labour force, unemployment in March was 5.7 per cent, compared to 6.4 per cent in March last year, and 5.3 per cent in March 1967. The year-to-year decline was 40,000, all of it among men in the 20-64 year age group.

Of the total unemployed in March this year 448,000, or 28 per cent, had been unemployed for less than one month, 34 per cent for one to three months and 38 per cent for four months or more.

The seasonally-adjusted unemployment rate in March 1969 was 4.2 per cent. It has remained at about this level throughout the first quarter of this year, contrasting sharply with an average level of close to 5.0 per cent during the latter half of 1968.

WHEAT TO GHANA

The Canadian Government has provided a grant to Ghana for the purchase of 22,000 metric tons of Canadian wheat worth \$2 million, which will help Ghana cover its balance-of-payments deficit. As food accounts for 16 per cent of Ghana's imports, this is a sector in which Canada can help reduce the outlay of foreign exchange.

Ghana's need for wheat this year is because of severe rains that last summer caused heavy damage to domestic crops. Shortages may result in price increases that would be a hardship for the general public.

Canada has been a major source of supply for the flour needed by Ghana and the Canadian International Development Agency has supplied flour for the last three years to assist the Ghanaian Government in rebuilding the economy.

This year, for the first time, CIDA is supplying wheat now that Ghana's first flour mill is operating at full capacity and the second flour mill has started production.

TELEPHONE OF THE FUTURE

Electronic technology will make the telephone of the future smaller and lighter, according to the Northern Electric Company. It will also offer improved performance and a number of technical advantages that could lead to economies in the operation of the complete telephone network.

A Canadian prototype of this telephone of the future was unveiled recently at an international components show at the Salon International des Composants Electroniques in Paris, France.

The experimental telephone used integrated circuits and thin film components, housed in the

handset. The push-button dial is on the underside of the handset, and the whole thing weighs about half as much as today's model. A retractable cord coils itself back into the telephone base after use.

A novel electret microphone and its associated electronic circuit in the mouthpiece, which weigh a tenth as much as the conventional carbon-type microphone, reduce size, power and distortion. In addition, an electronic-tone ringer has been developed offering a more pleasant signal than the electromechanical bells now in use.

Before this new telephone reaches the market, exhaustive laboratory and field studies will be undertaken to determine the best possible physical, mechanical and electronic characteristics consistent with consumer preference.

REPORT ON POSTAGE STAMP DESIGN

Formation of a permanent Design Advisory Committee made up of artists, designers and philatelists, and a substantial increase in commissions paid by the Post Office to designers of Canadian stamps, are the principal recommendations of a Special Task Force on Stamp Design. The report of the Task Force was tabled in the Commons recently by Communications Minister Eric W. Kierans.

SUMMARY OF RECOMMENDATIONS

In its 30-page report, the Task Force concluded that "no professional artist-designer can be expected to design stamps for the Canada Post Office for the present fee". It recommended an increase in these fees from the present \$400 to \$2,000. The Force also concluded that, under the present system, "artist-designers have little or no communication with the security companies that reproduce their designs", that "final reproduction of a postage-stamp design often leaves much to be desired", and that "the Canada Post Office has little contact with the professional artist-designer community in Canada". It recommended the immediate formation of a Design Advisory Committee to assist the Post Office by selecting potential stamp designers, assigning contracts, assessing design submissions, recommending reproduction methods and by approval of the final artwork and printing plate proofs. The Committee, with a rotating membership, would be made up of artists, designers and philatelists.

Other recommendations of the Task Force were: greater flexibility in the choice of size and shape of stamps; consideration of the possibility of a more rapid change in definitive issues, from three to five years; improvement in the appearance of air-mail forms, stamp booklet covers, and postage-due stamps; consideration of the use of stamps as visible ambassadors of Canada including greater attention to the cultural, scientific and humanitarian achievements of Canadians. In releasing the report, Mr. Kierans stated that the Task Force had fulfilled

its purpose, which was "to provide the Post Office with the candid and unrestricted opinions of professional Canadian artists and designers". He planned to take action "shortly" on the principal recommendations of the report.

MINISTER'S COMMENTS

At the same time, Mr. Kierans took issue with some of the comments of the Task Force, in particular its observation that "most Canadian stamps are amateurish in design and, with the exception of a few intaglio designs, tasteless in execution". Conceding that there was "unquestionably room for improvement", the Minister pointed out that "many Canadian stamps have received wide acclaim and philatelic writers have lauded the high quality of the steel engraved process used in the production of the majority of Canadian stamps".

REVIEW OF ECONOMY IN 1968

(Continued from P. 2)

climate in North America was not yet developing, and the Bank of Canada felt that there should be no further increase in the banks' holdings of more liquid assets. Accordingly, we managed cash reserves in such a way that the chartered banks' holdings of such assets ceased to rise after mid-September, and the rate of expansion of the banking system was slowed. The changing expectations regarding the economic outlook were allowed to have their full impact on market interest rates, which rose gradually at first and more rapidly towards the end of the year. Long-term interest rates reached levels considerably higher even than those which had prevailed earlier in the year when the Canadian dollar was under pressure. Effective December 18 the bank rate was increased from 6 to 6 1/2 per cent and the rise in market interest rates continued into 1969. A further increase in the bank rate to 7 per cent was announced on February 28, 1969.

Over the year 1968, the average yield on long-term Government bonds rose from about 6 1/2 per cent to about 7 1/4 per cent and other long-term yields also rose to record levels. At the end of 1968 the average yield on outstanding provincial issues was nearly 8 per cent, on municipal bonds about 8 1/8 per cent, on corporate bonds more than 8 1/4 per cent, and the rate on first class conventional mortgages was 9 per cent or higher. It became much more difficult as well as more expensive to raise money in the bond market. The amount of new money raised in Canada by issuers other than the Government of Canada was much less in 1968 than in 1967, while the amount raised outside Canada increased considerably and included for the first time substantial issues in European markets. The Government of Canada, already a borrower in 1967, increased the amount of new money it raised in Canada in 1968, and also borrowed abroad to add to exchange reserves....

CANADA-U.S. ARRANGEMENTS

The agreements between Canada and the United States in respect of their international financial relationships were dealt with twice in the course of 1968 by exchanges of letters between the Secretary of the Treasury of the United States and the Minister of Finance of Canada. The first of these occurred on March 7 and the second on December 16....

The exchange of letters of March 7 exempted Canada from all the United States balance-of-payments measures affecting capital flows that are administered by the Federal Reserve System and the Department of Commerce. This action was of prime importance in enabling Canada to surmount its serious exchange crisis. It was matched by two steps on the Canadian side to ensure that the United States balance-of-payments position would not be impaired by the exemption. Canada declared its intention (1) to take any steps necessary to ensure that its exemption from the United States programme did not result in Canada's being used as a "pass-through" by which the purpose of the United States balance-of-payments programme would be frustrated; and (2) to invest its holdings of United States dollars in excess of working balances in United States Government securities which do not constitute a liquid claim on the United States, but with effective safeguards to Canada's position should its reserve levels require.

Steps were subsequently taken to implement the Canadian undertakings. On May 3 the Minister of Finance announced guide-lines that had been accepted by the chartered banks following discussions with the Bank of Canada. On July 24 the Minister of Finance asked all other financial institutions operating in Canada to accept a similar guide-line. On September 19, guide-lines for Canadian incorporated companies other than financial institutions were announced by the Minister of Trade and Commerce....

These various guide-lines were designed within the framework of Canadian practices to provide the necessary protection to the United States payments position, while at the same time causing a minimum interference with the normal activities of Canadian business. Our financial relations with the United States are so important that it is clearly in the national interest that Canadians should manage their affairs within these guide-lines. The Bank of Canada is administering the guide-lines which apply to the chartered banks, whose helpful co-operation it has received in this task.

In connection with the second understanding referred to above regarding the investment of Canada's holdings of United States dollars, Canada held at the end of 1968 \$1,250 million (U.S.) of special United States Government securities, an increase of \$1,050 million (U.S.) over the year.

The exchange of letters on December 16 dealt primarily with that part of the understandings between the United States and Canada which has to do with the level of Canada's official reserves. As reserves recovered during the summer and autumn from the low levels reached during the exchange crisis of the first quarter, increasing concern was expressed in Canada that the flexibility of Canadian monetary policy was in danger of being severely limited by the existence of a "target" level for Canadian exchange reserves under our agreements with the United States. In the December exchange of letters it was agreed that the understandings between the two countries do not require that Canada's reserve level be limited to any particular figure, and recognized Canada's need for flexibility with respect to reserve levels in order to accommodate the adaptation of monetary policy to the changing needs of the domestic economy, seasonal factors and other influences of a temporary nature. I welcome this clarification of our basic arrangements with the United States....