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GEARING RESOURCES TO THE ECONOMY

The following excerpts are from a speech by Prime Minister Pierre Elliott Trudeau to the Canadian Chamber of Commerce in Calgary on October 2:

...A keynote of the Speech from the Throne was the restraint imposed on government programmes by the rising costs of existing commitments and the limitations on revenues. The truth is that the financial situation which the Government faces over the next few years was not foreseen at the time when many of our present programmes were begun....

The costs of many existing programmes are now rising much faster than government revenues. For example, under present arrangements the cost of federal-provincial programmes for health, welfare and post-secondary education, which are now running at nearly \$3.5 billion a year, will more than double over the next four years. There is no prospect that government revenues will grow at this rate.

These statutory payments are determined by a number of factors set out in the legislation: the Government has no choice but to make the payments unless the legislation is modified. For example, payments to provinces under the Hospital Insurance and Diagnostic Act, under the Canada Assistance Plan and for post-secondary education, depend upon the levels of expenditures incurred by the provinces, which the Federal Government must then match. So far as hospitals are concerned the rising costs are mainly due to increases in wages, salaries and the numbers of hospital staff and the growing sophistication and variety of medical technology. The proportion of the population enrolled full-time in post-secondary education is also rising very rapidly. In 1951 it was about 5 per cent; it is now over 15 per cent and still going up. In itself this is unquestionably a desirable development, but the responsible governments must try to reduce controllable costs.

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The provinces have also expressed concern about the sharply increasing costs of jointly financed programmes. This whole question will be thoroughly examined at the forthcoming meeting of federal and provincial Ministers and I look forward to their assistance in a constructive approach to the problem of restraining these costs....

If we look at the various methods of financing governments, the limitations are clear. The levels of taxation imposed by all governments in Canada are already high. The difference between tax revenues and expenditures must be made up by borrowing, and the funds available to be borrowed are limited by the realities of the capital markets. These funds represent the savings of Canadians plus the net inflow of foreign capital into Canada. There is, at any given time, a limit on the supplies of available savings and there is no magic way to increase them. If governments, at all levels, borrow a disproportionate share of these savings this reduces the amounts available for productive investment in the private sector of the economy and exerts inflationary pressure on interest rates.

Borrowing abroad has made an important contribution over the years to both governmental and private borrowers in Canada, but too great a reliance on this source can pose particular problems for the Federal Government. Under the arrangements with the International Monetary Fund, the Federal Government is responsible for maintaining the agreed par value of the Canadian currency and it does this by purchases or sales of foreign exchange through the exchange fund. Purchases of foreign exchange, when

these are called for, must be paid for out of the Canadian dollar cash balances of the Government, so that an excessive inflow of foreign exchange can itself increase the cash demand on the federal Treasury.

However justified the demands for additional government programmes, we cannot simply ignore the overall effects of increased spending on the Canadian economy. In past years, we have devoted a substantial proportion of our resources to a progressive system of social programmes and we shall continue to do so. But we realize that social progress must be paid for. Even in a prosperous country like Canada, we have to ask ourselves at any given time how much we can afford. Faced with the rising costs of existing programmes and the limitations on our financial resources, what steps are we taking?

CUTTING COSTS

First of all we are taking a hard look at all existing programmes to find out if there are any which have served their purpose and should be discontinued. It is impossible to cut a government programme without hurting someone. In a democracy, all those who are adversely affected are entitled to voice their complaint in the public media and through members of Parliament. In other words, we realize that there is a political price to be paid in the short run for every economy we can achieve. We are confident that if the public is fully informed of our overall objectives, it will support the means necessary to achieve them....

IMPORTANCE OF PRIORITIES

Secondly, having examined our existing programmes, we have to set out priorities for the new services which changing economic and social conditions demand. Since it is not possible for us to finance all the programmes which would be socially or politically desirable, we must concentrate on those areas which are essential to our economic health. A satisfactory combination of government services can only be supported by a healthy and growing economy.

A top priority for public investment must be scientific and industrial research. In the past, the percentage of our national wealth which we have spent in this vital field has been very low in comparison to other industrialized countries. In the sixties, total federal expenditures on scientific activities has been increasing at a healthy rate. In the past four years, for example, it has doubled to about \$600 million annually. In the estimates for 1968-69 Federal Government support of scientific activities in universities has been raised from about \$75 million to over \$100 million. The Government will continue to expand and improve its performance in this area.

But even within this area we must be increasingly selective in the projects we support. Many scientists and engineers believe that we have not achieved a satisfactory balance in the distribution of our scientific effort between basic and applied science, that is between the generation of new knowledge and the practical application of existing information. At present, only 37 per cent of our overall science

effort is invested in development — much lower than the comparable figure for the United States. Similarly, the distribution of scientific activity between government departments and private industry appears to be out of line with our principal international competitors. Only 42 per cent is performed by industry, the lowest proportion amongst the nine leading European and North American countries. Our incentive and assistance programmes to stimulate research and development in Canadian industry are one method of correcting these imbalances....

STRETCHING THE TAX DOLLAR

Having carefully selected the projects and programmes which we must support, we have to make sure that we are making the most efficient use of the available facilities and personnel, that we are getting the maximum value for each tax dollar. In business, competition acts as a powerful external incentive to efficiency. In government we require both internal and external controls...For the past several months we have been making an overall assessment of Federal Government social security programmes from this point of view. We must make sure that recently-acquired knowledge is applied not only to the operations of the Federal Government but to those of other levels of government which we support. For example, recent studies have shown that a large proportion of patients occupying high-cost beds in our hospitals could be equally well cared for in low-cost convalescent homes if space were available...In another field, it has been suggested that the present division of the academic year in many universities and schools does not fully utilize available facilities. All those who contribute to the costs of hospitals, vocational schools and universities have an interest in ensuring that these institutions are efficiently operated.

To sum up, the severe limitations of our present financial circumstances require us to reassess our existing programmes in the light of present-day priorities, to concentrate our efforts in those areas which contribute most to the health of the economy, to exercise the utmost care in selecting specific projects and programmes within those areas, and to make the best use of available resources.

THE BRIGHT SIDE

Having spoken at some length about our immediate limitations, I want to comment on the prospects of our economy which are, in fact, very encouraging.

We are still very concerned about the inflationary pressures in the economy, although there are signs that the cost price spiral may be moderating slightly. The price increase measured over the GNP as a whole, which was about 4.5 per cent in 1966, declined to 3.9 per cent in 1967 and there are indications that 1968 will show further improvement.

Unemployment is certainly one of the vital elements in our judgments about the economic policies required for the immediate future. I have been pleased to note that there has been a modest easing of the unemployment rate in each of the last two months.

CANADA'S THIRD SATELLITE

As *Alouette I*, the first satellite built by the Defence Research Board of Canada, celebrated its sixth birthday on September 29, the larger and more complex *ISIS "A"*, another joint project of DRB and the U.S. National Aeronautics and Space Administration reached the half-way mark in its pre-launch tests. This third Canadian satellite, which will probe the ionosphere, is scheduled for launching at California's Western Test Range (WTR) about mid-December aboard a NASA rocket.

RIGOROUS TESTING

Fitted with all its onboard components, it is being subjected to a series of rigorous tests for 12 weeks to check spacecraft characteristics and performance under simulated launch and orbital conditions.

The present series of tests began on August 12 and will continue until mid-November when the spacecraft is shipped to WTR. The series includes compatibility-tests designed to ensure that NASA's Goddard Space Tracking and Data Acquisition Network will be able to track and receive data from the satellite. Tests, such as those of mass and magnetic measurements, vibration and thermal tests, check spacecraft characteristics and performance under simulated launch and orbital conditions.

Heavier than DRB's predecessor satellites *Alouettes I* and *II*, *ISIS "A"* will weigh some 525 pounds and is considered a medium-sized research spacecraft. Like its predecessors, it is spheroid in shape. Its outside surface is covered with more than 11,000 solar cells to power the batteries inside.

ISIS "A" is fitted with two extendible antennae, 240 and 75 feet long, to sound or probe the upper levels of the ionosphere. Four telemetry antennae project from the base of the craft to accept commands from the ground and to transmit data gathered by the satellite to ground-stations. Quadraloop antennae are mounted round the satellite's equator to radiate beacon transmissions, and two antenna-like booms

support probes for use in several of the onboard experiments.

The prime contractor for design and construction is the RCA Victor Company Limited. Satellite specialists from DRB's Defence Research Telecommunications Establishment (DRTE), Ottawa, monitored the industrial phases of the development and are directing the current tests in the U.S.A.

MORE COMPLEX THAN PREDECESSORS

The satellite's 11 experiments and expanded facilities have created power requirements considerably greater than those employed by *Alouettes I* and *II* which are carrying out four and five experiments each. A new feature, designed for the *ISIS* spacecraft series, is a spin- and attitude-control system to stabilize spin action in space and, also, to control the attitude of the craft relative to the sun and the earth.

ISIS "A" will be carried into orbit from the Western Test Range in California on an improved *Thor-Delta* rocket system, 92-feet high, provided by NASA. The vehicle will be about six feet longer than the *Thor-Agena* rockets that carried the *Alouettes I* and *II* so successfully into orbit around earth. The satellite will be the third in the series of five DRB and NASA spacecraft designed for ionospheric research by the Board's Ottawa telecommunications laboratory.

The letters "ISIS" refer to the joint DRB and U.S. National Aeronautics and Space Administration programme of International Satellites for Ionospheric Studies. Two more spacecraft in the series, the "B" and "C", are planned for further associated experiments to expand understanding of the outer atmosphere (magnetosphere), and particularly of the ionosphere, which affects radio communications.

Movement of the flight model from the prime contractor's plant in Montreal to Goddard Space Flight Centre was carried out with the help of the Canadian Armed Forces.

MAIL-CONTAINER SERVICE

The largest mail-container operation in the history of the Canada Post Office was inaugurated on October 1 between North Sydney, Nova Scotia and Newfoundland.

The new service, which is receiving the co-operation of Canadian National Railways, speeds up the transportation of mail by the use of aluminum containers, 20 feet long, from the North Sydney postal terminal, across the Cabot Strait, to Port-aux-Basques. CN then delivers the mail by truck over the Trans-Canada Highway to five key distributing-points in Newfoundland.

Six containers a day, seven days a week, leave North Sydney. The key to the new system is that the units operate in a loop movement to and from each of the five points on a daily basis. To provide the service the railway has invested in seven highway

tractors and seven dual-chassis trucks.

Before the container-service began, mail was carried in small wharf containers by ferry, across the Cabot Strait, where it was removed from the containers and taken by road and rail from Port-aux-Basques to inland points. The repeated handling in this method was both costly, owing to supplementary highway and ferry charges, and time-consuming. Almost 1,600 bags of second, third and fourth class mail were despatched daily from North Sydney to Newfoundland, while the return volume was some 400 bags a day. Domestic first-class mails are transported by air as they are elsewhere in Canada.

With the new service, six containers are loaded on the overnight ferry to Port-aux-Basques, where they are transferred to three flat-bed trucks for transportation by road to Corner Brook, Deer Lake, Grand Falls/Gander, Clarendville and St. John's.

Canadian postal officials say that the bigger containers provide a new quality of service and reduce transportation costs substantially between the mainland and Newfoundland. Similar services might be used, officials say, in other parts of Canada.

EXTERNAL AFFAIRS APPOINTMENTS

Mr. Mitchell Sharp, Secretary of State for External Affairs, has announced that Mr. George Kinnear Grande, who has been External Affairs member of the Directing Staff of the National Defence College in Kingston since 1966, is to become the new Canadian Ambassador to Norway, with accreditation to Iceland. He will replace Mr. John Peter Sigvaldason.

Mr. Sharp also announced that Mr. Victor Campbell Moore, of the Department of External Affairs Office of Economic Affairs would become High Commissioner to Jamaica, replacing Mr. Harry Jay, who had been appointed External Affairs member of the Directing Staff of the National Defence College in Kingston.

EARLY FASHION AND ARCHITECTURE

Two new books on early Quebec, written for the National Museum of Man, have recently been published in French by the Queen's Printer.

Robert-Lionel Séguin, an expert on the culture of New France, who recently won a Governor-General's prize, writes of fashion in clothes among the early Canadians and examines some of their architecture.

The citizens of New France, Mr. Séguin points out, not only possessed rich and varied clothing but their masculine apparel took up more wardrobe space than that of their ladies. Female garments, however, were of better quality, the author observes.

The book, *Le Costume civil en Nouvelle-France*, says that the farmer of the *Ancien Régime* was "as well dressed as any man and wore such sumptuous apparel as knee breeches and canions (lace frills)". Clothes cost him more than his farm implements or his cows.

ARCHITECTURE

The other book, *La maison en Nouvelle-France*, deals with the country houses of New France which were generally of two distinct types: the group house - living quarters, hayloft, shed and stable all under one roof; and the courtyard house - several separate buildings located round an inner courtyard. Most country houses in New France were of the latter type.

The colony was divided into two main architectural zones; the Quebec area, protected by the King's garrison, and the Montreal area, on the fringe of civilization and at the mercy of Indian raiders during the French-Iroquois war. Houses in the Quebec area were in the Norman style - large, spacious and pleasant. Houses in the Montreal area, built in the Breton style, were really fortress-homes - square, squat buildings with small windows that could be transformed into loopholes.

Mr. Séguin says there are many fine examples of

these homes throughout Québec, many of which are being restored.

The author wrote both books under contract with the folklore division of the National Museum of Man.

NHA INTEREST RATE LOWER

H.W. Hignett, President of Central Mortgage and Housing Corporation, has announced that the quarterly adjustment of the interest-rate ceiling for merchant-builder, home-owner, and rental-housing insured loans under the National Housing Act has lowered the ceiling to 8 3/4 per cent from 8 7/8 per cent, effective October 1.

The new ceiling also applies to insured loans on existing housing and home-improvement loans.

Mr. Hignett also announced that Central Mortgage and Housing Corporation would make direct loans for home-owner and rental housing at 8 1/2 per cent.

The ceiling rate beyond which CMHC cannot insure loans made by NHA approved lenders fluctuates in relation to changing yields on Government of Canada bonds. The National Housing Act provides for a maximum rate at 2 1/4 per cent above the yield on long-term Government of Canada bonds. In practice it is adjusted downward to the nearest one-eighth of 1 per cent.

Going rates charged by approved lenders have varied during the past few months and are currently averaging about 8.70 per cent for home-owner loans and 8.85 per cent for rental housing.

The new ceiling will remain in effect until the next quarterly adjustment on January 1 next year.

FISHERY CONFERENCE

Three hundred delegates from the Canadian fishing and shipbuilding industries and other interested agencies were present at the formal opening of a Conference on Fishing Vessel Construction Materials in Montreal on October 1. Sponsored by the federal-provincial Atlantic Fisheries Committee, which comprises the deputy ministers responsible for fisheries in the Federal Government and the governments of Quebec, Nova Scotia, New Brunswick, Newfoundland and Prince Edward Island, the meeting is the fourth in a series organized to improve efficiency and economic conditions in the Atlantic coast-fishing industry. Previous meetings were concerned with offshore fishing craft, the herring fishery and the potential development of fish protein concentrate.

Describing the subject of the present conference as important and timely, Dr. A.W.H. Needler, Deputy Minister of the federal Department of Fisheries, chairman of the three-day meeting, noted that the use of materials other than wood and steel in building fishing craft was a relatively recent development.

Thirty-three papers dealing with various aspects of vessel-building materials were presented by specialists from Canada, the United States, Japan, South Africa and leading European fishing countries.

EXPO 67 ANNUAL REPORT

Mr. Jean-Luc Pepin, Minister of Trade and Commerce, recently tabled in the House of Commons the 1967 annual report of the Canadian Corporation for the 1967 World Exhibition, Expo 67. The Corporation was created by an act of Parliament following the unanimous vote of members of the International Exhibitions Bureau in selecting Montreal as the site of a first-category universal and international exhibition in 1967.

This fifth annual report contains a comprehensive review of the operations of the six-month exhibition, which, it says, "was an unparalleled success and drew favourable comments from all over the world".

The net cost of Expo 67 at December 31, 1967, was \$273,588,537. According to a tripartite agreement signed in January 1963, the Government of Canada is responsible for 50 per cent of this expenditure, the Quebec government for 37.5 per cent, and Montreal for 12.5 per cent.

At the peak of the operation, the Corporation employed 9,911 people. Phase-out work is now being carried out by a skeleton staff of 42, under the supervision of the Central Mortgage and Housing Corporation.

Sixty countries took part in the exhibition, as well as three states of the U.S.A., two international organizations, 14 Canadian Government agencies, and over 18,000 private participants in 53 pavilions and 419 sponsored displays.

There were 62 national days and 32 special days celebrated at Place des Nations, resulting in visits from 22 heads of state and 14 heads of national governments.

There were 50,306,648 admissions, 26.9 per cent from the Montreal area, 24.6 per cent from the rest of Canada, 44.8 per cent from the United States and 3.7 per cent from other countries.

AVIATION TROPHY WINNER

Canada's top award for aviation in 1967, the Trans-Canada (McKee) Trophy, has been awarded to Lieutenant-Colonel R.A. White for setting the Canadian absolute altitude record of 100,110 feet last December. (See *Canadian Weekly Bulletin*, Vol. 23, No. 1, P. 4, dated January 3.)

Colonel White, who is senior test-pilot of the Aerospace Engineering Test Establishment at CFB Uplands, flew a specially-modified CF-104 *Starfighter* on 11 successful runs above 96,000 feet before reaching 100,110 feet on December 14, 1967. He headed a government and industry team effort which exercised much of Canada's national aerospace research and development capability in achieving this Canadian record.

The McKee Trophy was donated by J. Dalzell McKee, an amateur pilot, in February 1927 for annual award to top contributors in aviation pioneering. It was last presented in 1966 to Philip C. Garrett, a pioneer in Canadian aviation who was then president

of DeHavilland of Canada. The conditions of the award have recently been changed and are based primarily on outstanding contributions or spectacular achievements in the field of air operations.

The trophy will be withdrawn from permanent display in the National Aviation Museum for presentation to Lieutenant-Colonel White by the Minister of National Defence on October 24.

POLLUTION PROBLEMS PREVAIL

The Governments of Canada and the United States have received the second interim report of the International Joint Commission on the pollution of Lakes Erie and Ontario and the international section of the St. Lawrence River. The report was tabled recently in the House of Commons by the Minister of Energy, Mines and Resources, Mr. J.J. Green.

It was noted that the two governments had received an earlier interim report from the Commission in December 1965, which had also been tabled in the House. Both reports were submitted in response to a request by the governments in October 1964 that the Commission investigate and recommend measures to reduce pollution in these waters. The earlier report contained interim recommendations designed chiefly to combat pollution in Lake Erie. The second, tabled on October 2, states that, "although there has been noticeable progress on both sides of the boundary in developing remedial programmes, pollution and advancing eutrophication are still problems in areas of Lake Erie". "Such pollution is still causing or is likely to cause injury to property and persons on the other side of the boundary," the report adds. It goes on to say that "similar conditions are continuing to develop in Lake Ontario and the international section of the St. Lawrence River". Listing problems in these waters that remain to be solved, the report records achievements to date in both countries.

The Canadian Government continues to lend its support to the Commission in carrying out the investigation. Following the receipt of a final report from the Commission's boards on water pollution, expected next year, the Commission plans to hold public hearings and forward a final report with recommendations to the Government.

U.S. HONOUR TO ECONOMIST

Dr. John F. Booth, a pioneer in agricultural economics in Canada and the man who organized the Economics Division of the federal Department of Agriculture in 1929 and headed it until his retirement in 1960, has been elected a Fellow of the American Agricultural Economics Association - the first Canadian to be so honoured.

The honour was accorded recently in recognition of Dr. Booth's many contributions, particularly in the development of national marketing institutions, in launching agricultural-outlook work in Canada, in helping draft Prairie Farm Rehabilitation

legislation, and in the initial planning of the Agricultural Rehabilitation and Development Act.

Dr. Booth has represented Canada at many international conferences, notably the Food and Agriculture conference at Hot Springs, British Columbia, which he attended as a charter member, and the first FAO conference at Quebec. In 1954, he visited Malaya as a member of an Economic Mission of the International Bank for Reconstruction and Development.

For his service to Canadian agriculture, Dr. Booth received a Fellowship in the Agricultural Institute of Canada in 1948 and an honorary Doctor of Laws degree from the University of Saskatchewan.

GEARING RESOURCES TO THE ECONOMY

(Continued from P. 2)

In recent years, the Canadian labour force has been expanding very rapidly as a result of the high birth rate after the Second World War, large numbers of immigrants, and the growing proportion of our population seeking the type of employment which brings them within the definition of labour force. During the last year or so the increase in employment opportunities, although substantial, has not kept pace with this exceptionally rapid growth and this has contributed to the present rate of unemployment. Over the next few years the rate of growth of the labour force, although moderating slightly, will continue to be high by international standards, and we shall need a high level of savings and productive investment to provide sufficient jobs....

The business community has achieved a remarkable record in exports in recent months. Our total merchandise exports this year from January to July inclusive were about 15 percent higher in value than in the same period in 1967. We expect a surplus

of close to \$1 billion in our merchandise trade balance for 1968.

The Canadian dollar is looking fit and resilient, having successfully resisted the heavy pressure to which it was subjected in the early part of this year during a period of general international financial crisis. We have repaid the loans obtained to support the dollar from the International Monetary Fund and the Federal Reserve System of the United States, and we have cancelled the line of credit with the Export-Import Bank of the United States which we did not need to use. In recent months our currency has been strong and our reserves have been restored to our agreed target level of about \$2.5 billion....

It seems to me that we require a more flexible relation between the public service and the business community, the professions, the labour unions and other occupation groups. I have the impression that while in some countries it is a common occurrence for a businessman, for example, to move in and out of government employment, in Canada it happens relatively rarely. We must devise better ways to harness the skills of private citizens.

One method may be through the long-term planning institute proposed in the Speech from the Throne. This body would be similar in function to the Brookings Institute in the United States. It would assemble experts of varied backgrounds to study the long-range prospects of the country and the objectives and techniques of Government. It would certainly require the active support and participation of members of the business community.

I should also hope that we could count on the collaboration of businessmen in recruiting experienced executives for responsible positions which might require one, two or three years of their time. An ever-changing contingent of such men and women would stimulate and strengthen the Government, and would provide the business world with a greater insight into the problems of Government....