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FURTHER COMMENTS ON U.S. ECONOMIC GUIDELINES

Statement to the House of Commons on February 2, 1966,
by the Honourable Mitchell Sharp, Minister of Finance

I intend to speak very briefly... to make a few points on the application and the implications of United States guidelines on direct investment in Canada. First of all, I should like to make it quite clear... as I did in a speech I gave earlier this session, that I am not defending the United States guidelines on direct investment. As Minister of Finance I advised the Government of the United States that I thought they were unwise, both economically and politically, to apply these guidelines to Canada. Therefore, in what I have to say, I am maintaining the position that it would be in the interests of both Canada and the United States if Canada were exempt from these guidelines.

The first general point I should like to make is that, in discussing the problem of the effect of these United States measures on Canada, we must recognize that the United States has a balance-of-payments problem and that these guidelines, as well as other measures, are related to that problem alone. Now, some experts disagree as to the nature of the United States international financial problems. However, I believe we have to recognize that the United States must be the judge of its own responsibilities and its own position.

Undoubtedly the United States Government is concerned about its balance-of-payments position. If it were not concerned, it would not be employing the extraordinary measures it is employing. This leads me to the second point, and that is that one should not make the assumption that is sometimes made, I notice, that the United States Government has embarked upon a new and permanent policy of guidelines on direct investment by international companies based in the United States. If that were so, if in fact we were convinced that the United States had embarked upon a new, permanent policy, there would be very serious cause for concern on the part of not only Canadians but the world at large.

For the time being at least, I think one ought to give the benefit of the doubt to the United States Government and accept the views expressed by members of that administration. If I may, I should like to quote the

views expressed by Mr. Connor, Secretary of Commerce, on January 17, as reported in the New York Times of that day. He said that the voluntary balance-of-payments programme should be ended by February of next year. The more important part of what he said is the following, as outlined in this article:

In discussing the ending of the program a year from now. Mr. Connor said the Government recognized that restraint on direct investment, in particular, was against the longer-run interest of the nation and of the balance of payments, because it would ultimately reduce both exports and income from investments.

On that point I think there is agreement between the Government of the United States and the Government of Canada... that these measures are not in the interests of the United States in the longer run. I think we must take it for granted that the United States has adopted these policies temporarily and that they are not part of a new orientation of United States thinking.

The third point, and one that I have emphasized before in this House but which I should like to emphasize again, is that it is in Canadian interests and in the interests of the Western alliance that the United States should overcome its difficulties. Our attitude as Canadians should be one of co-operation by all reasonable means. This does not mean we should be reluctant to express our views with frankness and vigour to the United States Government, as we have done. I have no complaint at all about the fact that others in this country have been expressing very vigorous views about the application of these policies to Canada.

It does seem to me, however, that we should not go out of our way to increase the difficulties of the United States, because we do want them to overcome their problems so that they can resume the policies they were following when there were no restraints on the movement of capital in or out of the United States.

Finally, I do wish to make it clear once again, as I did in answer to a question today, that the Canadian Government did not accept the application of United States guidelines on direct investment to Canada. These guidelines on direct investment did not form any part of our understanding with the United States Government. In December, I announced the terms of the agreement with the United States Government which related to access to the United States market for long-term funds and freedom from the United States interest-equalization tax, in return for which we agreed to try to achieve a target on our reserves. This was our agreement.

So far as the guidelines are concerned, we are free to take whatever action seems to be appropriate to protect Canadian interests, including, if necessary, as I suggested earlier today, guidelines of our own. For example, the Minister of Trade and Commerce, at my suggestion, is examining the effects of these guidelines upon the trade of Canada and

will no doubt be talking to the heads of Canadian companies that might be affected by the guidelines applicable to their United States parents.

I intimated also, in answer to a question today, something about our attitude on the financial implications of these guidelines. I should like to amplify that. The United States balance-of-payments position is basically protected by the agreement on reserves. It would be most undesirable if the effect of the United States guidelines were to induce strong new pressures of a distorting sort on credit and capital markets in Canada. This would be harmful to Canada and, in view of the overall character of our arrangement with the United States, it would be of no benefit to that country, since it would merely push Canadian borrowers into the new issue market in the United States.

The Governor of the Bank of Canada, on December 10, immediately after the publication of the American guidelines, informed the chief executive officers of the five largest Canadian banks that it was his hope and expectation that, if the banks found themselves confronted with new applications for credit resulting from the American guidelines at a time when they were unable to meet in full the normal demands for business loans for credit-worthy customers, they would continue to look after customers who had relied on them in the past to meet their financial needs. The chief executive officers indicated that they agreed this was the proper course for them to follow. The Governor's views were reiterated at a meeting with the chief executive officers of all the banks held on January 5.

So far as long-term issues of American subsidiaries are concerned, I should hope and expect that there would be no abnormal recourse to the Canadian capital market but, if there were, the Government would have to decide what action to take. As I mentioned in my speech last Thursday, the United States new-issue market is open to American subsidiaries as well as to other Canadian companies. If abnormal borrowing in our capital market developed, this would merely push other Canadian borrowers into the new-issue market in the United States and so provide no benefit whatever to the United States balance of payments.

These are the general comments I wanted to make supplementary to the questions that I answered today. May I just say in conclusion that this is a time, as I said on an earlier occasion, for vigilance and watchfulness on the part of the Canadian Government and, indeed, on the part of Canadians. May I suggest, in the interests of Canada and in the interests of helping the United States overcome its problems, which have repercussions upon us in Canada, that it is also a time for restraint, for forbearance and for understanding.