



## STATEMENTS AND SPEECHES

INFORMATION DIVISION  
DEPARTMENT OF EXTERNAL AFFAIRS  
OTTAWA - CANADA

No. 50/39 CANADA SPEEDS PLANS FOR DEFENCE

An address by Mr. C.D. Howe, Minister of Trade and Commerce, to the Vancouver Board of Trade, on October 6, 1950.

It is just about four months ago that I had the pleasure of a visit to Vancouver and an opportunity to speak to the businessmen of this city. In that short space of time a great many things have happened that have made impressive headlines in our newspapers. On the surface, it looks as if the international situation had changed radically but I am not sure that the changes have been as great or as far-reaching as they seem at first sight. True, some of the problems that were with us in May of this year have been brought out in the open and important decisions have been announced regarding the manner in which we propose to deal with them. The greatest of these decisions was, of course, the clear-cut resolve of the United Nations to meet force with force. Following that decision, courageous action has been taken -- action that proves the determination that lies behind all our efforts to build a more stable, peaceful and prosperous world.

Without in any way minimizing the importance of the events of the past summer and the vital decisions that are even now under consideration in the international field, the fact still remains, I think, that there has been little basic change in the overall situation. The opening of the Korean campaign brought the situation to a head and made it necessary to speed up a defence preparedness programme that was already under way. We were then and we are now fighting what is essentially a cold war with the Communists. Because of the Korean situation, the cold war has now become lukewarm. But more important than the hostilities in Korea is the fact that we are still in a war of nerves. It is a war that has intensified in effect and one that shows little signs of coming to an early or sudden end.

We must, I believe, prepare ourselves for a long period of uncertainty and one in which it is going to be extremely difficult to tell just how the situation will develop. At times, it may appear that there is very little uncertainty and that the catastrophe of a third world war is upon us. On the other hand, if the pressure is off on the military front, we may be inclined to think that our troubles are over. It is easy to get caught in the swing to either extreme -- to devote all our energies to preparations for war or to be lulled into a false sense of security. In my view, both extremes are equally dangerous.

In such a situation, we must keep our heads and our sense of perspective. That is why, in the period that lies immediately ahead, we must keep our policies flexible and at the same time take account of the long-term objectives that are basic to a sound and stable economy -- both here at home and for the world as a whole.

In the remarks I have just made I have tried to express some of the views that lie behind the government's policies at the present time. While we have stepped up our defence plans to meet our international obligations, we are trying to keep the overall picture in view before initiating action that affects either the military preparedness programme or the welfare of the nation as a whole. There are some people who, in all sincerity and with the best interests of Canada at heart, feel that the present situation calls for measures that would be used in a state of all-out war -- emergency production boards, conscription, controls and rationing, to mention but a few of the measures they advocate. Each of us has the right to his own interpretation of the situation. In fact, the people of this hemisphere believe in a system that puts its faith in an aggregate of individual decisions rather than in the decisions of a few master minds. In the business world especially we feel that the composite of a large number of independent decisions is preferable to the planning of a few experts. But how extremely sensitive this system of mass decision is to the changing fortunes of a troubled world!

Not long ago fears were being expressed right here on this very coast that the outlook for some of the basic industries in this region was disturbing. To some it seemed that we were facing declining employment levels, that markets were disappearing, and that we were heading straight for a depression. Let me hasten to assure you that the West Coast was not any different in this from other parts of the country. Memories, I know, are short, but I don't think it does any harm at this time to remember the days when we had to dispose of a few surpluses. Those of you who are in the lumber business will recall some of the gloomy forecasts made at that time. Some of us felt then that the situation was a temporary one and that alternate markets would develop.

Now, little more than one year later, the pendulum has swung in the opposite direction. Rearmament needs, added to an already high level of civilian demand, are putting additional pressure on available supplies of material and manpower. Let us not over-estimate the seriousness of this situation and rush into a line of action that is not really suited to our present needs and that might be difficult to get out of once we have put the machinery into motion. For the pendulum may swing again away from a situation of tight supply and shortages. Nothing would suit the Kremlin better than to have us go all-out on defence preparation, then relax under a peace offensive, and be caught short when they again launch their programme of aggression by proxy. That is why I feel it is so important for us to keep our feet on the ground and not panic. The developments arising out of the Korean war so far have not called for a radical change in policy. What is needed right now is to increase our national defence effort in terms of men and equipment for the defence of Canada and to fulfil our

international commitments; to lay the groundwork for effective action in whatever circumstances may develop; and to carry on with those long-range programmes that will keep our economy strong.

I thought that this audience might be interested to know what the Government has been doing about this situation, what we are doing right now, and what we are going to do as the situation clarifies itself. Perhaps in the few minutes at my disposal I can best describe this under three general headings: direct defence preparations, co-operation in the international field, and economic preparedness in Canada.

Our defence preparations date back to decisions made soon after the end of World War II, when it was decided to retain the nucleus of a munitions and supply department. On the production side this has been done through Canadian Arsenals Limited. Canada, as you know, has no munitions industry to correspond to our aircraft and shipbuilding industries and since the war Canadian Arsenals have maintained their normal operations in the production of small arms and ammunition. In recent months, their programme has been greatly expanded. In addition, they have kept in reserve large quantities of tools and other supplies that would be needed in time of war.

On the procurement side, we have the Canadian Commercial Corporation. This group of more than 300 trained purchasing personnel, many with extensive experience during the last war, has acted as the purchasing agency for foreign governments in addition to the work it has done for the Canadian Government. Today, C.C.C. is responsible for letting out all the contracts for munitions and military equipment needed in our expanded defence programme.

On the development side, there has been a continuing programme since the war in the contracts for the production of a new type of night fighter, a jet transport plane, and a jet engine -- the first aircraft engine to be both designed and manufactured in Canada. In all three fields, Canadians can be proud of the work that has been done. Since the outbreak of fighting in Korea, we have started to produce the F.86 jet fighter, the Canadian-designed Canuck night fighter, and the Orenda engine. Just recently, naval shipbuilding contracts have been let, bringing the total up to more than \$70 million for this year. The contracts have been awarded on the basis of a careful allocation to ensure the maintenance of shipbuilding facilities on our inland waters as well as on both coasts. About 30 per cent of the total programme has been awarded to British Columbia yards. Then there is the recently awarded contract for the production of the most modern design naval guns. I mention this contract specifically because it is a joint contract with the United States and illustrates what can be done in the way of co-operation between our two countries to produce the arms and equipment needed to stop the forces of aggression.

This is neither the time nor the place to give a complete catalogue of our stepped-up production programme, nor yet of our greatly-increased construction programme for defence purposes. But the overall measure of the increase in what we are doing now and what we will soon be doing is to be found in the doubling of the defence budget.

Apart from the contract for naval guns, all the work under way at the present time is to meet the needs of our own armed forces. Because of the planning that had been done before Korea, it has been possible to condense the armed services' time-table and to bring forward requirements that in the ordinary course of events might have been brought up two years from now.

In speaking of Canada's part in the international field, I do not need to dwell on the work we are doing through the United Nations nor of the ground force that is even now in training for service with the United Nations. Nor do I need to mention the not inconsiderable part we have taken in the development of the North Atlantic Treaty and the setting up of its organization, particularly the Military Production and Supply Board. From the discussions that are now taking place, and will be taking place for some time to come, Canada's part in the overall plan for defence production will be determined and we will soon have more definite information on what is to be produced here in Canada. In the meantime, we are going ahead with our own programme and making plans for the expanded armament production which we anticipate in the very near future.

As you know, we are working very closely with our neighbours to the south in making plans to mobilize our joint industrial forces in the interests of greater efficiency and a more co-ordinated defence production programme. With our combined resources of manpower and essential raw materials, I know that we can use the great industrial potential of Canada and the United States to our mutual advantage if we get together in closer economic co-operation.

The importance of economic preparedness in addition to our preparations for military defence cannot be overstressed at this time. It is an essential part of the overall picture if we are to keep our economy strong and win the war of nerves. The second article of the North Atlantic Treaty recognizes the need for collective action in the economic field. Instead of setting up another international body to deal with such matters, however, it is hoped to work through the already well-established organization for European co-operation. Canada and the United States have therefore become associated with OEEC and we have just recently opened an office in Paris to strengthen our direct connection with the work of this organization.

On the home front we are also devoting attention to the economic aspects of our preparedness programme. The risk of inflation is but one of the major problems arising out of an accelerated armament programme. The Government is well aware of the difficulties that may be ahead and is determined to maintain a balanced budget in the present circumstances. It has announced its intention of following a pay-as-you-go policy for just as long as it is possible to do so. We must recognize, however, that there comes a time in the event of war when total costs cannot be met from current revenues and part of the burden must be borne by future generations through the medium of borrowing. In order to follow our policy of a balanced budget, we have increased some taxes, and as a further anti-inflationary measure we have

taken steps that will enable us to regulate consumer credit. In the spring of this year we obtained from Parliament powers to ensure priority for direct defence orders. At the recent special session this fall we sought and were granted special standby powers to regulate essential materials and services, for the dual purpose of speeding up our defence production and at the same time preventing undue dislocation of the civilian economy.

The Government is continuing its programme for the long-term growth and development of the country. The period we are in now is neither one of all-out war nor yet is it one of peace. It is a little of both. In our zeal to defeat the aggressor quickly, we must not overlook those activities that belong to more normal times.

In assessing the effect our preparedness programme will have on the Canadian economy, it must be remembered that we are now operating close to capacity, with production and employment at record levels. On the trade side, our position is most satisfactory. In the face of continuing dollar shortages, it has been the Government's policy to maintain the overall volume of our exports and at the same time bring our trade with individual countries and trading areas into better balance. It now looks as if our exports in 1950 will be even higher than in 1949. After allowing for rising prices in certain commodities, there will still be substantial increases in the volume of goods sold outside of Canada. As we anticipated at the beginning of the year, there has been some decrease in sales to sterling markets but this has been more than offset by increased sales to the United States. In fact, our exports across the border are running more than a third higher than the 1949 rate. This has, of course, been a decisive factor in maintaining Canadian prosperity. It has also helped to reduce still further the gap in our American trade. As you know, our total trade with all countries has always been in very close balance but we have been running a deficit in our trade with the United States. In 1947, when we had to impose import restrictions to help correct a situation that had become critical, the deficit was around one billion dollars. Last year it was down to about \$400 million; for the first eight months of this year it was less than \$100 million. And in closing the gap in our American trade I think it is worth noting that we have at the same time been able to increase the volume of our total trade with that country.

In our trade with the United Kingdom and the rest of the sterling area, we have also achieved a sounder balance.

As a result of efforts on the part of both Canada and the United Kingdom, sales of sterling area goods to this country have increased some 15 per cent, while the difference between exports and imports for this year so far is only a quarter of what it was in the same period last year. With increased prices and a strong demand for such raw materials as wool, rubber and tin, and in view of the improved financial position of the sterling area as a result of dollar-earning and dollar-saving

policies, there is reason to hope that the worst of the sterling restrictions on Canadian trade will soon be over. Canada's trade today is in a strong and healthy position, with growing world demand for the goods this country produces.

On the domestic front, investment is continuing to boom and is expected to reach an all-time high of \$3.7 billion this year. If realized, this programme will be eight per cent greater than last year. In production, too, new peacetime records are being made in such important industrial fields as steel, cement, lumber, construction, and electric power. The development of Canada's newly discovered resources is continuing to make history. I have just come here from Edmonton where I was present at the opening of the inter-provincial pipe line which, when completed and in use, will make it possible to supply half of Canada's oil requirements from domestic sources. Already the use of Canadian oil is having a favourable effect on our balance of payments position. But we have only made a beginning in the oil picture and more can be achieved, particularly when Alberta oil reaches the West Coast.

As a result of all these favourable forces and with an increased defence programme, national production should be around \$17 billion, or \$1 billion more than last year. Canada has never been more prosperous. We now have a larger supply of goods and services than ever before and the capacity to produce still more.

Against such a background, I feel there is every reason to believe that we can manage our increased preparedness programme and still leave substantial resources free for civilian use. Although the programme as now envisaged means a doubling in our defence expenditures, it will involve only a relatively small proportion of Canada's total capacity and output. Allowing for some increase in requirements from abroad, our preparedness efforts, including foreign demand, are likely to be less than ten per-cent of our national production in the next year.

In saying this, I do not wish to give the impression that we have no problems on our hands. While there is no immediate need for overall controls, the armament programme is already affecting the supply of certain strategic defence materials. Export controls on non-ferrous metals, nylon, and certain chemicals, have recently been added to such critical items as steel, which, of course, is of prime importance. Although few in number, these basic materials, because of their strategic implications, must receive our closest attention. There will also be some stresses and strains on individual sectors of the economy which will require government intervention in the interests of national security and welfare. These will be dealt with as they appear and the Government has the standby legislation to issue directives should the need for such action arise.

The record, of which I have given but a brief outline, speaks for itself. It does not include panic measures; it does not propose an overall programme of economic controls. We are getting ahead with the job and, as the situation stands at present, we have the machinery

needed to keep production rolling and meet our civilian needs as well. But as I said in Parliament, should the situation deteriorate to a point where other and more drastic measures are needed, the Government would have no hesitation in asking for the necessary powers and authority to deal with it.

In short, I believe that as of this moment the Canadian situation is well in hand, and that we will be able to deal with future problems as they may develop.

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