

Atlantic Provinces Economic Council

An address by the Minister of Finance, Mr. Walter Harris, to the Maritime Boards of Trade, Charlottetown, P.E.I., September 12, 1955.

When Cartier first saw Prince Edward Island he spoke glowingly of its beauty. I am glad to admit that the attractiveness of this region is just as obvious to the visitor of today as it was to him. The Maritime region has a deep historical interest for all Canadians who take pride in the origins of our country. To people in all parts of Canada, Charlottetown is the cradle whence came our united and prosperous country. As we all know, the city of Charlottetown is celebrating its centennial this year. I understand that the first civil elections were held in 1855 and I have heard it said that the citizens enjoy elections today as much as they did then. Sharing as I do with all Canadians a feeling of great pride in the history of our country, I am especially pleased to be able to visit the birthplace of Confederation in this centennial year of the founding of this city. I am, therefore, most grateful to you for inviting me to speak to you.

The forces making for Confederation were both political and economic. Politically, it was designed to forge a stronger and bigger community, one which would be more secure from possible external pressures. In terms of economics, it was hoped to create a large free trade with the markets of Upper Canada, with the expectation that trade with Upper Canada would replace to a considerable extent the dwindling overseas trade. The prosperity of this region was based on the products of the sea, the forest and the farm and upon the carrying trade which took these products to overseas markets. As long as the sailing vessel was supreme and the British Colonial preferences existed the Maritimes could be assured of an important place in the economy of the North Atlantic. The shift from the sail to steam and the disappearance of colonial preferences changed all that.

The political objectives of Confederation have been pretty satisfactorily fulfilled. Indeed, I think the Fathers would say—amazingly so. But I know that the various parts of Canada have not progressed economically together—one seemingly doing better than another, but in turn being superseded by some other part.

It does seem to me, however, that the post-war period, while full of problems and adjustment for all regions of Canada, has brought to the Atlantic Provinces a new spirit of confidence and a determination to make the full use of their potential resources. We all know that the Atlantic Provinces labour under certain natural handicaps arising from the long distance between them and the big markets of Upper Canada. Freight rate subventions and special help to the steel and coal industries on the part of the Federal Government may have done something to offset this handicap, but it remains a problem for many of your industries. Then, until recently there was the question of

the comparatively limited nature of the basic resources of the region other than the forest industries. One resource in which you are not lacking, however, is that of intelligence, skill and vigour on the part of the people, and basic resources is now a different story.

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An address by the Minister of Finance, Mr. Walter

This new determination to tackle the problems of Maritime development seems to me to be illustrated by the decision to set up the Atlantic Provinces Economic Council. As I understand it, you are responsible for this project, the purpose of the Economic Council being to co-ordinate the activities of all groups working for the development of this region and to search for ways and means of promoting new economic activities of a dependable kind in this Atlantic region. If I may say so, this seems to me to be a very worthwhile approach to your economic problems since a solution of them must depend in the main on the ingenuity and efforts of the people of the Maritime Provinces themselves. I wish the Council every success and I want to assure it that, in its studies it can count on the full co-operation of the Federal Government and of the federal public service. May I add, that there is a saying about limitation and flattery - we in Ottawa have appointed a Royal Commission on Economic Resources.

New Economic Developments

I have noted with interest some of the new economic projects taking shape in the Maritime region. The mineral discoveries are an important reason for confidence and optimism. As I understand it, the market for the output of the forest industries remains good. I also notice that the construction industry is taking on more importance since the war and particularly in recent years. The manufacturing industries are also responsible for a substantially larger part of your total output of commodities than was the case before the war. In Nova Scotia the figure has gone up from 33 per cent in 1938 to 41 per cent. In New Brunswick the increase is from 39 per cent to 44 per cent. This diversification is all evidence that the Maritimes are not standing still. As long as these products to overseas markets. As long as vessel was supreme and the British Colonial preferences existed in the However, I am here more to learn about your problems than to solve them. Instead I thought it would be more appropriate if I said something of the progress of the Canadian economy as a whole and of the world economic situation.

Developments in the rest of Canada and in overseas markets are of great importance to the Maritimes because you sell a large part of your output in the rest of Canada, or in external markets. I need hardly mention that your prosperity - otherwise - depends just as much as on what is happening in the rest of Canada, in the United States and in the world at large, as it does on developments here in the Maritimes.

The Economic Adjustments of 1954 and 1955

One of the most reassuring events of the last year or so in Northern America as a whole has been the way in which the economic contraction which began towards the end of 1953 was held in check in 1954 and turned into a renewed upward movement in 1955. It is reassuring because it demonstrates that the economic system in this country and in the United States is resilient and flexible, able to cope with large changes in

demand, or other such adjustments, without serious disturbance and unemployment. It also points to the fact that confidence in the future of the Canadian economy is widespread throughout Canada.

If we cast our minds back only six months or so to the situation that existed last winter, you will remember that there was a good deal of concern both in Parliament and throughout the country, about the problem of unemployment. A good deal of this unemployment was seasonal of course. This is one of the inevitable consequences of our climate, though it is also something we must all endeavour to keep to a minimum.

In this connection I should mention that the Government has discussed various aspects of this problem with the Provinces. For example, we have put forward proposals to the Provinces for Federal sharing of the costs of unemployment assistance. The proposals are being studied and so are the counter-proposals. We have also improved the benefits paid under the unemployment insurance system. We have also investigated measures to encourage more winter construction by governments and private industry so as to reduce the seasonal impact of unemployment in Canada, and my Colleague, the Hon. Mr. Winters has made some reference to this recently. Incidentally, I have heard it said that construction of houses and buildings is at an all-time high and that this is the cause of the present well-being of our economy. If so - and I'm not disagreeing - Mr. Winters is just showing another sign of Maritime efficiency.

During 1954, and particularly last winter, it is true that on top of the seasonal slump in business activity, there was in Canada and the United States an additional and undesirable amount of unemployment in some of our secondary manufacturing industries. To some people it looked as if the steady growth of production and employment that had been so market a feature of this continent in previous years had come to an end, at least temporarily.

Most of us did not share that pessimism. The troubles of the North American economy were not chronic or deep-seated. In the United States there was a problem of excessive inventories in the hands of manufacturers and distributors and the liquidation of these inventories meant, for the time being, less production, less investment in new plants, and therefore less employment.

This recession in the United States, if you can call it that - had some unfavourable repercussions on Canada, as any trouble in the United States is bound to do.

Of course, we also had some of the same problems of declining demand to contend with in Canada, and difficulties in some of our manufacturing industries which had had to cope with increased international competition. We had a decline in production in some of those manufacturing industries which had expanded so greatly since World War II and especially since the start of the Korean War. I refer to some defence production industries, textiles, automobiles, electrical goods and so on. And we had a poor harvest in the Prairie Provinces, which had some adverse consequences for the rest of the economy too.

The Budget Question

By the time of the Budget in April of this year, there was evidence of improvement in the economic situation.

The decline in industrial activity in the United States had come to an end and production and employment was beginning to move forward again. This was also true in Canada, through our increased exports to the United States. At the same time the European demand for our exports of forest products, minerals, chemicals and the like was well maintained. Of course the output of the basic resource industries - and the employment in them - continued to grow throughout the recession phase, and have gone on growing since then.

New capital investment always a great provider of jobs and incomes - had slumped a little in 1954 from its high level of 1953 but was beginning to grow again by the spring of this year.

This was the broad picture as I saw it when planning the budget. I therefore estimated that, barring unforeseen events, 1955 would see a national output of at least \$25½ billion or 6 per cent more than last year. Many people at that time thought that this was over-optimistic, but were kind enough to say that a first budget was entitled to be.

With this in prospect, I might have decided that the question of budget policy had almost decided itself. With a higher national product, there would be an automatic increase in revenues on the basis of existing tax rates, and the forecast revenues would just about balance the expenditures.

But there were other things to consider.

First and foremost, there was the question of tax rates. I happen to have said on another occasion that when taxes are high, we run the risk of diminishing the initiative and enterprise on which we all depend for a healthy and expanding economy. And I also believed that a reduction in certain kinds of tax would help increase consumer spending and encourage a larger amount of investment and enterprise, and thereby reinforce the expansion that was already going on. I therefore felt that our tax policy should be based, not on the immediate prospects, but on the longer-run prospects of the economy.

Looking at the revenues that would result from the probable growth of the economy during the year, it was apparent that the existing tax rates would begin to produce a surplus, perhaps beginning about the end of the fiscal year. This would be the case if the total production was to increase enough to make up for the ground that had been lost in 1954, and to increase still further by the normal annual growth of two or three per cent. Since I felt that we could reasonably expect the Canadian economy to reach this position in about a year, or at least be in sight of reaching it, I felt that the tax policy for the year ahead of us should anticipate this condition right now when it would do the most good.

Consequently, I recommended to Parliament certain important tax reductions.

However, I did not suggest that the economy would average this higher level of production throughout the whole of the next fiscal year and I said that consequently, there would be a deficit for the coming year as a whole.

The Improvement in the Economy in 1955

As I have said, these measures were regarded by some people as being based on an over-optimistic view of our economic prospects. In the result, the events of the last few months have shown that these expectations have been satisfactorily fulfilled so far. Industrial production, construction, exports and consumer spending have all risen impressively. Let us look at a few statistics at the half-year mark for Canada as a whole.

Manufacturing production this summer was up $8\frac{1}{2}$ per cent over the middle of last year. Last summer it was below the level of the previous year by 5 per cent. We have found that some of the manufacturing industries which were in trouble last year are beginning to overcome their difficulties, and most other industries are continuing to produce and sell more goods and services and to employ more people.

Retail sales in June of this year were 11 per cent above the level of a year earlier.

The Labour Force of Canada has grown substantially since last summer - by about 160,000 - nearly 3 per cent - but the number of people at work has grown by about 183,000. Consequently, the number of unemployed (in July) was down about 23,000 from last year, and amounted to 2.6 per cent of the labour force. This is beginning to approach a pretty high level of employment.

Gross National Product

As I mention earlier, my budget forecasts were based on the belief that National Production in 1955 as a whole would average about \$25 $\frac{1}{4}$ billion, and that by the end of the year would have reached a rate of about \$26 billion.

In a few days my Colleague, the Minister of Trade and Commerce, will release the calculations made by the D.B.S. concerning the Gross National Product for the second quarter of this year. This will show that the second quarter witnessed a sharp increase in economic activity, reaching a level of rather more than \$26 billion, measured in annual terms. This is a 4 per cent increase over the first quarter and 9 per cent over the 1954 figure of \$24 billion. It would appear, therefore, that if the level of production in the second quarter is reasonably well maintained during the second half of the year, the forecasts I made at budget time about the size of the national income in 1955 will be considerably surpassed.

There are some uncertainties ahead of us; there always will be. There is still the usual seasonal concern over the Western wheat crop, and of course the drought in Ontario has had unfortunate results. But our exports this year are some 10 per cent above the levels of last year and one can see no evidence of any decline in demand in the United States, where business is very active. Since the United States is by far our best market, we hope to keep our trade relations with that country as free of difficulty as may be and we are having a conference with the American representatives of the Joint Canada-United States Committee on Trade later this month. It will be our intention to place before the American representatives the needs of the Canadian exporters and all matters which will permit the continuation of the high level of business activity between the two countries.

Dangers of Instability and Inflation Abroad

The closer a country moves towards a position of high employment the greater becomes the danger of inflation. In some of the countries of Europe evidence of the strains and stresses caused by the full employment of resources is beginning to show itself in the form of a reappearance of foreign exchange shortages. All of us should be concerned that a solution of these difficulties can be found by public and private measures of restraint, without resort to the undesirable forms of import restriction that were present a few years ago. Happily, it would appear that the lessons of the last ten years or so have not gone unnoticed and fiscal and monetary measures are being used to restore a proper balance, thereby making it unnecessary to re-impose quantitative controls on imports.

The Trend Towards Freer Trade in Western Europe

The economic recovery of Europe has been one of the most encouraging features of the last few years. Why is this important?

1. Because it gives strength to the NATO alliance by restoring social stability in Europe;
2. Because Western Europe is an enormous market for the food-stuffs and raw materials of the world, including Canada, and thus a more prosperous Europe means more demand for exports.

The Results of Recovery in Europe include:

- (a) Control of inflation. Prices have been stable for three years, although measures to prevent a revival of inflation have just had to be taken in some countries including the United Kingdom;
- (b) Europe, instead of being an international borrower, or recipient of grants, is now increasing its investments abroad, particularly in the under-developed countries. That is, Europe is resuming its customary role as a capital exporter.
- (c) Much progress has been made in removing undesirable restrictions on trade, such as import quotas and prohibitions and exchange controls.

As a result of European progress, and of the dismantling of import controls, Canadian exports to the United Kingdom, for example, were 35 per cent higher in the first half of this year than they were last year.

Canadian Commercial Policy

The benefits of increased exports are reflected in greater economic activity throughout Canada. For that reason and for others we must avoid doing anything which will make it difficult for overseas countries to sell their products in Canada, since only by selling to us and the United States can they obtain all the dollars they need to pay for their purchases from us.

To sum up, it seems to me that we have indicated as a Government our desire to assist in cutting the costs of commodities by reducing taxes, and I can assure you that the only desire is to provide a climate for the intelligent and vigorous

competition which has always marked the Canadian business world. We, therefore, ask you to take the same view, namely, keep costs down and aggressively seek business so that we can continue to improve our standard of living.

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