



STATEMENTS AND SPEECHES

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No. 52/2 REVIEW OF THE CANADIAN ECONOMY

Text of an address by the Minister of Trade and Commerce and Minister of Defence Production, Mr. C.D. Howe, delivered to the Toronto Board of Trade on January 21, 1952

...On an occasion such as this, it may be appropriate to take stock of the Canadian economy, to look back at what has been accomplished during the past year, and to discuss prospects for the future.

We have lived through a troubled and anxious year. But when the national accounts are closed and a balance struck, what is the net position? My examination leads me to the conclusion that 1951 was a year of creditable achievement for Canada. Those living in less fortunate countries may wish to describe it in more enthusiastic terms. In Canada our standards are high, and I am not going to claim too much. Moreover, I think we can and will do better.

Our main job in 1951 as a nation, and my big job as a Minister of the Crown, was to get the programme of defence production rolling on a major scale. We did just that. Most of the results are still to come in terms of deliveries of arms and equipment, and in terms of defence expenditure. But we are on our way; the groundwork has been laid. We are one year closer to the point where, in company with our allies, we can face with confidence, any threat to our security.

There is a natural impatience to get on with the job. I share that impatience. But I can assure you that no time is being lost, or effort spared to give the defence production programme the precedence that the people of Canada would wish it to have.

I could take the remainder of my time telling you about the progress that is being made, the difficulties that are being experienced and the delays that are being met and overcome. But, since I have other things to say, I shall confine myself to a few simple facts and figures. The three-year defence programme upon which Canada is now embarked began on April 1, 1951. In the nine months between that date and the end of the year, the Department of Defence Production placed orders for defence goods and construction amounting to one billion four hundred million dollars, twice as much as had been ordered in the whole of the previous twelve months. Deliveries are not coming forward at this rate, of course. Modern jet fighters and

bombers, radar sets, submarine chasers, anti-aircraft guns and all the other complicated apparatus of modern war are not to be picked off the shelf. It takes months and sometimes years between the placing of orders and the final delivery of the finished items. Nevertheless, deliveries are coming forward in ever-increasing volume.

Next year I expect the rate of deliveries to increase greatly. According to present plans, the peak will come in 1953. In other words the programme is gathering momentum and will soon be moving along at top speed.

Overall figures, helpful as they may be to indicate the direction a nation is going, do not tell the real story of a defence effort. This is particularly true in the case of Canada, for the major characteristic of our programme is its specialization. Our defence production efforts put greatest emphasis on three programmes, aircraft, electronic equipment and shipbuilding. Similarly, our defence building efforts are so designed as to provide primarily the facilities we need to fit into North American defence strategy and to supplement our specialized defence production programme. Our defence construction projects, therefore, emphasize greatly the provision of airfields, radar stations and coastal defence installations.

Perhaps I might illustrate Canadian emphasis on specialization by reference to a few examples. A short time ago I had the pleasant task of turning over to the RCAF its first Canadian designed and built jet aircraft -- the CF-100 "Canuck", which is fitted with the "Orenda" jet engine, also developed and produced in Canada. It has taken less time to get the "Canuck" from the drawing-boards into production than similar aircraft in the United Kingdom and the United States - the "Canberra" and the "Scorpion". The "Canuck", which is being produced by A.V. Roe Canada, Limited, of this city, will be used eventually to equip long-range all-weather fighter squadrons and thus will play an important part in the defence of the northern frontiers of America.

Then there is the F-86E jet interceptor, which is now being produced in quantity at the Canadair Limited plant, in Montreal. Already 145 of these aircraft have come off the production line. Canadair is also going to produce the T36A Beechcraft twin-engine trainer for the USAF, and the T33 jet trainer, developed from the "Shooting Star", for the RCAF. When the Canadair plant is rolling out all three aircraft, it will probably be employing around 18,000 people, making it one of the largest aircraft factories in the world, and all this is just part of the Canadian aircraft production story.

In the electronics field one of the outstanding pieces of equipment developed in Canada is the mobile early-warning radar set, the No. 4 Mark VI, used for anti-aircraft and other defence purposes. This item is Canadian developed and engineered. From the comments about it and orders we have been receiving for this radar set from our allied friends it is becoming apparent that it is the best piece of equipment for the specific purpose at present in production anywhere. We have produced a limited number of these for ourselves, we have undertaken to make 300 units available to European NATO countries as part of our Mutual Aid Programme, we have shipped a small number to the United States, and negotiations are currently under way for further purchases by that country.

The shipbuilding programme is another important part of our defence effort. Upon it depends our ability to keep our sea-lanes open during time of war. Submarine warfare was one of the great threats to the survival of Britain and Europe during the last war, and will be an even greater menace in the next war. We are concentrating on building high-speed vessels equipped with every known device to meet the threat of modern submarines and mines. Great strides have been made with our shipbuilding programme.

Another specialized field in which Canada is making an important contribution is that of defence research. Our work bears upon Arctic warfare, problems of radio transmission in Northern Canada, and defence against atomic, chemical and biological attack. We are also conducting investigations in the fields of guided missiles, electronics, medical research, aeronautics and anti-submarine warfare.

I could give you much more detail about our defence programme, but perhaps I have said enough to indicate that the programme is gathering momentum. However, there are other factors to be considered. Our approach to national defence must necessarily be many-sided. We must first build up our military strength, but, at the same time we must develop the resources that are needed to sustain a long struggle; and, in addition, the civilian economy must be kept on an even keel. That is why, in considering our defence effort, we must keep in mind all the different aspects, for in this day and age there is little that goes on in the country that does not affect our common defence effort in one way or another.

Charles E. Wilson, Defence Co-ordinator of the United States, in one of his earlier public statements, said that military production is not the only criterion on which a country's effort should be based. Production of materials essential to the strengthening of the free world, the maintenance and expansion of essential services and production facilities, as well as the minimum essential civilian requirements, must also be considered.

And so we have been expanding our economy as rapidly as possible. Something like 22 per cent of our national income was devoted last year to capital investment, and a large part of this will result in increased production of materials that were in critically short supply. Steps can, and have been, taken to assist and facilitate investment in the fields of direct defence and defence supporting industries, and to discourage less essential investment.

Again I am embarrassed by riches of illustration of what happened in 1951. A two-thirds increase in the production of oil in Alberta and the opening of a pipe line bringing that oil to the head of the Lakes, the beginning of the great Kitimat Aluminum project in British Columbia, the building of the railway to bring iron ore from the vast mines of the Quebec-Labrador, a one-seventh increase in the output of hydro-electric power -- these are a few items that come to mind, but there are others equally important.

May I make special mention of atomic energy activities in 1951. In that field we made important decisions that will have a profound effect on Canada's future in this new field. Our explorations for uranium have been outstandingly

successful. Eldorado Mining and Refining Limited, the Government-owned uranium producer, was authorized to proceed with the development of two most promising properties in the Beaver Lodge area of Saskatchewan. Development work in the mines is well under way and plans for a new refinery are on the drafting board. When this new mine comes into operation Canada will again become the second largest producer of uranium ore, and we can look forward with confidence to maintaining and improving that position.

Another decision of far-reaching importance taken in 1951 was to build a second atomic reactor, or pile, at our Chalk River Atomic Energy Establishment.

This decision was taken as a result of the extraordinary success which we have achieved in the first heavy-water pile. This unit has proven to be extremely useful as an experimental facility and has disclosed to the world the advantage of heavy-water reactors. It also has suggested innumerable and promising methods for the industrial utilization of atomic energy.

Our decision to build a new pile was also influenced very much by the belief that during 1951 the prospects for economical commercial atomic power have become brighter. The Canadian Government is resolved that we in this country should keep in the forefront of what may well become the greatest new technological development of the century.

I have outlined the dynamics of the Canadian economy in 1951 -- an ever-increasing defence effort and an unprecedented growth and expansion of our civilian economy. At the beginning of the year there may have been some doubt as to whether the Canadian economy would be equal to the strain; whether men and resources could be found to do what we wanted to do without causing serious trouble elsewhere.

There were difficulties and it was necessary for the Government to take measures -- some of them unpopular -- to keep the situation in balance and in particular to restrain inflationary pressures, which are always a problem under such conditions. Prices rose, in spite of what was done. That was inevitable, for Canada could not have insulated herself successfully from the world forces of inflation that were at work towards the end of 1950 and in the early months of 1951.

By the middle of 1951 a greater degree of stability was achieved in world markets and the Canadian anti-inflationary policies took hold. The panic buying, which followed the outbreak of hostilities in Korea, seems to have come to an end, at least for the time being. Public psychology has changed. It is no longer as easy as it was a few months ago to sell such things as automobiles, refrigerators and clothing. Competition is becoming keener and spreading throughout the economy. The cost-of-living index has continued to rise, but at a very much slower rate in recent months. In fact, on December 1 there was a small decline in the index.

These are promising signs. They hold out the hope that some balance is being restored, and that the measures, adopted by the Government are working as they were intended to work. No one in the Government has ever said that Canadian fiscal, monetary and credit policies could affect,

by very much, the prices being paid by Americans for Canadian beef, or Canadian newsprint or Canadian lumber. Nor has the Government claimed that its policies could prevent prices in Canada from being affected by prices paid for wool from Australia, cotton from the United States or coffee from Brazil. What it has been reasonable to expect is that a budgetary surplus, and a curb on the expansion of the money supply and the extension of credit, would help to reduce pressure on domestic prices.

Defence preparations are going to have an increasing impact on the economy. That much is certain. But it by no means follows that these preparations will result in upward price pressure in Canada. I believe that we can make the necessary adjustments to meet defence demands without upsetting the balance.

One of the really difficult problems in dealing with a potentially inflationary situation is to avoid "rocking the boat". To warn against the dangers of inflation, to paint a lurid picture of what may happen to prices, is likely to cause people to act from fear and lead to unnecessary shortages and price increases. On the other hand, if the dangers of inflation are under-estimated, people may be led to question the anti-inflationary policies that are necessary under present circumstances.

My own view is that we cannot afford to be complacent about the outlook; but neither need we be unduly alarmed. Let us bear the following in mind: if we succeed in our efforts to avert war, the impact of the defence effort will eventually decline. We are in a period of build-up. In due time, we shall surmount the hump and more manpower and resources will become available for ordinary civilian use. We should remember that productive capacity is growing and this will enable us to maintain adequate defences with much less strain on the economy.

The primary emphasis in all our thinking should be on increased production of those items which are in short supply. In the long run, our ability to meet the increased demands placed upon Canada and the free world will determine our success in holding down the level of prices. That is why I think we should do all we can to preserve a strong and resilient economy with the maximum freedom from controls.

Confidence in Canada's economic future is shared by many nations. In particular, our friends in the United States have demonstrated their confidence by investing increasing amounts in Canadian resources development and industrial expansion. On the trade side, we have reached new high levels, both in exports and imports. Even though there was a trade deficit last year, foreign capital inflow was so substantial that Canada continued to be in a healthy foreign exchange position. A few weeks ago the Government abolished foreign exchange control. Canada is now one of the principal trading countries in the world, such as the United States and Switzerland, where foreign exchange dealings can proceed, unaffected by government regulation. The fact that our dollar has in recent weeks risen very close to the value of the United States dollar is encouraging evidence that the world seems to believe, as we do, in the basic soundness of the present Canadian position.

No doubt you would like to know at this point what is going to happen to business in Canada during 1952. So would I. But the gift of prophecy is denied to most members of the human race, not excepting Cabinet Ministers. All that any of us can do is to chart a course, that we have good reason to believe will take us to our desired destination, and to be ready to alter our plans, should the wind blow from an unexpected quarter.

As a matter of fact, some difference of opinion about future trends is by no means a bad thing under present circumstances. You will remember what happened in the early months of 1951. At that time too many people were convinced that there was going to be a repetition of wartime shortages and scarcities, and set out to protect themselves by buying more than they needed for current use. What was the result? Exactly what might have been expected -- a sudden jump in prices of commodities, here and throughout the world, to levels higher than were justified or could be sustained, and an excessive accumulation of inventories. The unfortunate effects of those fears and miscalculations are still being felt.

So, if you expect advice for 1952, all that I have to offer is this -- "keep cool, avoid rocking the boat". We all know that it is part of the Communist strategy to attempt to disrupt the economies of the free nations. Nothing delights the Communists more than to discover irrational economic behaviour based upon fears inspired by them. Businessmen like yourselves can do much to keep the Canadian economy steady on the course that leads to security and a better life.

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