

# Canada Weekly

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## National effort required to battle the problem of inflation

*In an address to the Canadian Club of Toronto on January 27, Finance Minister John Turner pointed out that the nature of inflation in Canada was changing. Whereas initially, he said, it had been created by a world-wide boom that caused demand of many commodities to exceed supply and by the "fourfold increase in oil prices", the main reason now was the rapid escalation of wages and salaries to keep pace with the rising cost of living.*

*To combat the problem Mr. Turner called for the "support and co-operation of every group" in the country. Passages from his speech follow:*

\* \* \* \*

Resolving this critical problem will take time, patience and persistent effort. It has now become so deeply entrenched in the world economy that it cannot be expected to yield quickly or easily even to the most Draconian of policies – as the recent experience in the U.S. has indicated. There is no magic solution, no miraculous stroke of "leadership" by government that is going to make the problem suddenly disappear. Now more than ever it requires the support and co-operation of every group in our economy.

All of which brings me to the effort we have now launched in a more formal way to seek accord among these groups on national goals for steadily reducing the rate of inflation and on practical and acceptable means of achieving those objectives.

\* \* \* \*

What tends to be overlooked is the fact that we are also confronted by circumstances that are very different from any we have experienced in the past. Economically, the world faces a far more critical situation than at any time since the last war.

This essential fact was clearly recognized by Joe Morris, President of the Canadian Labour Congress, in his New Year's message:

"Apart from the hardship inflation poses to wage and salary earners, pensioners and, in general, all middle and lower income groups, there is a definite danger that the problem may, if it is not curbed soon, destroy the very social fabric of our country and other countries as radically and surely as violent revolution," he warned.

"On the international front, the

danger is that countries will take steps to protect themselves without any consideration for the damage such isolationist steps may cause other countries and the world as a whole," he continued.

"In Canada, individual groups may tend to look out for their own interests alone in order to protect themselves from the dangers of inflation, often unconcerned or simply unaware that by doing so they are hurting other groups, thereby ultimately hurting themselves."

## Controls not the answer

But the stark nature of the problem confronting us is not the only new factor which needs to be taken into account. We have found from sad experience that the classic method of combating inflation – sharply restraining economic growth – has become increasingly less effective in achieving its purpose. Furthermore, it is not a viable or acceptable alternative in a country such as ours with a very rapidly growing labour force. The experience of many other countries, most particularly the U.S. and Britain, suggests that broad and comprehensive wage and price controls not only tend to disrupt economic growth, but over time do little to curb inflation and may, in fact, even aggravate it....

That leaves only one alternative, the alternative now being pursued both by the United States and Britain – voluntary support for a national effort to gear down the rate of inflation. When British Prime Minister Harold Wilson was asked throughout the election campaign in Britain last fall what the situation would be if this approach did

not work, his sobering reply was: "It has to work because it is the last resort."

Because of the impact of severe inflation and lagging economic growth, millions of people in many countries face the prospect of a prolonged period of declining prosperity. Only recently the European Economic Community warned that the citizens of its member countries could expect their standard of living to be reduced over the next three years.

We in this country have the potential to maintain and even improve our standard of living during this same period. But we are only likely to realize this potential if we are able to exercise enough self-discipline to avoid trying to take out of the economy more than it is capable of producing. If we can reach mutual understanding about the claims of each group on the economy, then it will be possible not only to maintain and improve our standard of living, but also to bring about a steady decline in inflation. No one is being asked to accept a self-imposed hardship. What I am saying is that collectively we will be a lot better off, not worse off, if we co-operate together to moderate our demands on the economy.

...The Government has already taken a number of steps to strengthen the financial position of both individuals and companies as a means of helping to ease inflationary pressures on the economy. The personal income tax cuts announced in the November budget, together with indexation, will significantly raise the take-home pay of Canadian workers. For the married taxpayer with two dependent children earning \$10,000 these measures provide an increase in take-home pay of \$250. By the same token, the financial position of Canadian manufacturing and processing companies also has been substantially improved by the reduction in their taxes and rapid write-off of outlays on machinery and equipment, providing a strong incentive for the expansion of capital investment, output and employment.

#### Dangers of high wage demands

What we are confronted by is a structural change in our economy — and that of other countries — which compels us to absorb relatively substantial increases in the price of food and energy.

For a time, an increased proportion of family budgets must be earmarked for purchase of these essentials. There is no way we can escape that burden. The danger is that in trying to do so by pushing for excessive increases in wages, salaries and other incomes we will only provoke a still more vicious inflationary spiral and undermine our prospects for future growth and prosperity.

This is even more likely to be the outcome if the unrestrained pursuit of substantially increased wages and salaries results in widespread industrial strife. During the first ten months of last year, the number of man-days lost as a result of industrial disputes soared to a record 8,900,000. This extensive disruption to the economy must be a matter of concern to all Canadians, particularly considering the fact that over the past several years in this country time lost through industrial disputes in relation to employment has exceeded that of virtually every other industrial country.

If we can succeed in reaching some national understanding on goals for moderating the rise of costs and prices, we may hope not only to bring inflation under control, but also to reduce the industrial strife which impedes our economic expansion. And, as the C.D. Howe Research Institute pointed out in its *Policy Review and Outlook for 1975*, it is an expanding economy that in time will enable us to grow out of inflation by providing the increase in real purchasing power Canadian families need to meet the increased cost of food and energy.

As I indicated earlier, real growth of the Canadian economy in 1975 is likely to be somewhat below potential. The increased stimulus provided by the November budget will inject a growing economic thrust over the course of the year. I hope that the pursuit of similar expansionary policies by the United States and other major industrial nations will also help to bring about a revival of international economic growth during the course of this year and a resulting strengthening of our export sales abroad.

Even the temporary slowing of our economy, of course, remains a matter for concern, given its effect in bringing about increased unemployment. Over the whole of 1974, the rise in the number of new jobs created of 378,000, or

4.3 per cent, was second only to the record growth achieved in the previous year. But the labour force continued to grow at a pace that was also just short of last year's record, increasing by 383,000, or 4.1 per cent. While employment growth moderated in the last few months of 1974, the expansion of the labour force continues without let-up, resulting in the jump in the seasonally-adjusted December unemployment rate to just over 6 per cent.

\* \* \* \*

#### Domestic oil prices

I fully recognize that business is concerned about the uncertainties that continue to surround the future development of petroleum and mining resources. To a considerable extent these uncertainties have been inevitable, given the nature of our federation and the constantly changing outlook for prospective resource supplies and costs in the future.

The massive increase that took place in world oil prices last year compelled us to devise arrangements to shield the Canadian economy from the worst shocks of that development. It raised issues that related in a fundamental way to sharing of the benefits and burdens of Confederation. We were faced with the necessity of resolving crucial questions relating, among other things, to our system of equalization payments, the division of resource revenues between industry, the provinces and the Federal Government and — in the case of petroleum — the timing and extent of price increases that should be permitted for domestic supplies.

The equalization question has now been fairly satisfactorily resolved, subject to parliamentary approval. We are making progress toward resolution of the question of the division of revenues between industry and the two levels of government. In the November budget, I pulled back significantly from the proposals for resource taxation first put forward in the budget last May. Alberta has made some positive moves. British Columbia has proposed certain steps to strengthen the financial position of natural gas producers within its borders. We have long recognized the need to narrow the differential between the domestic and international price of petroleum to encourage both the development of new reserves and the conservation of existing stocks....

### British Prime Minister in Ottawa

Prime Minister Harold Wilson of Britain (left) and Prime Minister Pierre Elliott Trudeau discuss the world economic situation, the European Economic Community and other items in Ottawa on January 29. Mr. Wilson and Britain's Foreign Secretary James Callaghan stopped over in the capital for one day on their way to Washington to meet U.S. President Gerald Ford.

They stated at a news conference that Britain would give "any help it could" to ensure continuing relations between Canada, the European Economic Community and Commonwealth countries.

CP Photo



### Tax deduction to be removed for advertising in "Time" and "Readers Digest"

Secretary of State J. Hugh Faulkner informed the House of Commons on January 23 that two subsections of the Income Tax Act would be deleted during the present session which would remove the tax deduction for advertising in certain foreign publications.

In effect, the proposed legislation would mean that the Canadian editions of *Time*, *Reader's Digest* and other smaller publications, would cease to be treated as Canadian publications and Canadian firms advertising in them could no longer deduct their advertising expenditures for income tax purposes. Only advertising in Canadian publications will be regarded as tax deductible.

In his statement to the House, Mr. Faulkner explained as follows:

...The effect of these subsections as they stand is to accord to certain foreign magazines — of which the most important are *Time* and *Reader's Digest* — advantages in the field of advertising which are otherwise reserved to Canadian magazines and denied to all other foreign magazines. Canadian firms advertising in Canadian magazines are allowed, in calculating income tax, to deduct the costs of those advertisements at 100 per cent. Under the present law they can do the same with the cost of their advertisements in *Time* and *Reader's Digest*, which are foreign magazines.

The intent of Section 19, in the first place, was to support the Canadian magazine industry — then, as now, weakened by the virtual domination of the market by American publications. Instead of legislating against the entry of the American material, which would have been an interference with the free flow of information and ideas, the framers of Section 19 legislated an ad-

vantage, or incentive, for actual and potential Canadian magazines. However, the addition of Subsections 2 and 4, now to be deleted, vitiated the intent of the Section by exempting from its requirements the two main competing foreign magazines. The proposed amendment to the Income Tax Act will, as of January 1, 1976, restore to Section 19 the force and intent which its authors had in mind. I am confident that the enterprise and skill of the Canadian magazine industry will seize this opportunity. It is my hope and expectation that this decision of the Government will result in the creation of a Canadian news magazine.

#### Broadcasting also affected

I should also like to take this opportunity, Mr. Speaker, to inform the House, on behalf of my colleague, the Minister of Communications (Mr. Pelletier), that the Government also intends to recommend to the House a similar amendment to the Income Tax

Act in his area of responsibility, to the effect that no deduction against income be permitted for advertising time on a non-Canadian broadcasting station for an advertisement directed primarily to a market in Canada. Such an amendment would not, of course, come into effect until sufficient advertising time is available on Canadian stations to satisfy Canadian needs adequately.

The purpose of this amendment is to constrain the significant outflow, estimated at some \$20 million a year, by Canadian firms purchasing advertisements on U.S. border stations. These stations, Mr. Speaker, are not licensed in Canada, but in many cases they are designed and exist to serve the Canadian market. I should note that this amendment has been recommended to the Government by many organizations including a committee of this House and a committee of the other place. We believe that this amendment will have the effect of redirecting funds to Canadian broadcasters and as such will make Canadian broadcasting outlets economically more viable. Their economic strength, in turn, will ensure viewers a broader selection of Canadian programs, make possible better programming and improve the prospects of new or proposed Canadian stations. In short, it is our belief that this proposed measure will assist in improving the over-all quality of the Canadian broadcasting system.

In taking these steps, we in the Government are really not so much concerned with certain of the nation's in-

dustries as we are deeply committed to the nation's integrity. What happens in the area of Canadian books, magazines and broadcasting, as in other areas of Canadian cultural expression, is not a matter of marginal interest or importance: the strength, originality and vision we find therein is the true measure of what constitutes our national life.

### University research plan

The Canadian International Development Agency and the Association of Universities and Colleges of Canada have endorsed a plan of co-operation in higher education to enable Canadian universities to be more active in the development of research capability, particularly in the practical or applied research fields in Third World countries.

CIDA President Paul Gérin-Lajoie, said that research in developing countries was often hampered by a lack of expertise at critical stages in a project. By providing access to experienced researchers he said that Canadian universities could make a significant contribution in strengthening the research capability of developing countries.

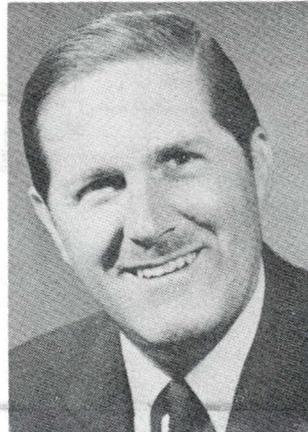
CIDA is organizing a provisional advisory council to co-ordinate the new program, which is expected to be operational in the near future. Professors taking sabbatical leaves are another possible source of expertise that may be available to developing countries.

A recent survey showed that 520 professors were willing to spend their sabbatical leaves working in developing countries on CIDA-supported projects.

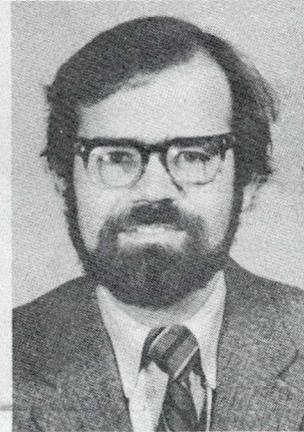
### Farmers may have tough year

Concern about rising production costs and the eroding effect of inflation dominated the 1975 Agricultural Outlook Conference in Ottawa on January 20 and 21.

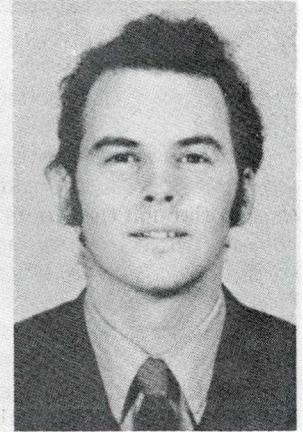
"Even though we can expect gross farm receipts to go up by 4 per cent in 1975, net farm income may nose-dive by 12 per cent; the culprit will be input costs," Agriculture Minister Eugene Whelan told the closing session



Jack Godsell



Al Smith



Hunter McGill

### Canadian International Development Agency staff in Kenya air crash

*Three officers of the Canadian International Development Agency survived a recent airplane crash in a remote part of Kenya. The three, Jack Godsell, director of CIDA's Commonwealth Africa division; Al Smith, second secretary at the Canadian mission in Kenya, and Hunter McGill, also at the*

*Nairobi mission, were on a reconnaissance survey of a CIDA project at Isiolo.*

*Mr. Godsell and Mr. Smith received extensive injuries requiring several weeks recovery in a Nairobi hospital; Mr. McGill received superficial injuries and did not need hospitalization.*

of the two-day meeting.

"Farmers can expect to pay more for nearly every major farm input," he said. He noted that farm machinery, which accounts for 21 per cent of total farm operating costs, will be more expensive owing partly to higher steel prices.

Livestock feed, fertilizer and other chemicals, hired labour, fuel and electricity would all add to increased production costs, Mr. Whelan said. But he assured farmers that agriculture would be at the top of the priority list if fuel shortages forced cutbacks in consumption.

Mr. Whelan was confident, however, that farmers would be able to unite to keep the agricultural industry healthy.

"It is up to you to lead the way in ironing out the peaks and troughs in the market-place," he told the delegates. "Look into the alternatives. Farmers and farm groups are smart enough to find the answers."

The Minister warned that 1975 would be a tough year in which farm prices would not catch up with jumping production costs.

"Because of this cost squeeze, farmers are going to have to get their money's worth for every dollar they spend," Mr. Whelan said. "They are

going to have to do some hard thinking and a lot of careful planning."

Mr. Whelan said he hoped that the Western Grain Stabilization Plan, now before Parliament, would be in effect in time to apply to 1975 crops.

Representatives of federal and provincial agriculture departments, farm organizations, agribusiness and universities spent two days discussing the prospects for the various commodities in 1975.

Beef slaughter is expected to increase because of high inventories, and *per capita* consumption may hit a new record. Turkey and chicken production will decline but heavy storage stocks will keep ample supplies on the market. Eggs will continue to be in over-supply during the first part of the year until production gets in line with demand. There is room for increased production of fluid milk and cheese. Grain farmers are encouraged to increase production to build up world stocks, which are dangerously low.

Farm organization spokesmen didn't always agree with the prediction of Agriculture Canada's economists. They also warned consumers that food prices must give the farmer a high enough return to ensure continued production.

### Ice fishing a favourite sport in Quebec

Each winter, from December to mid-February, the village of Ste-Anne-de-la-Pérade, Quebec, attracts some 75,000 fishermen who fish for Atlantic tomcod through the floors of multi-coloured little huts set up on the ice on the shores of the St Lawrence River. The spot, 50 miles upstream from Quebec City at the mouth of the St Anne River, is known as "the village where they fish for little channel fish".

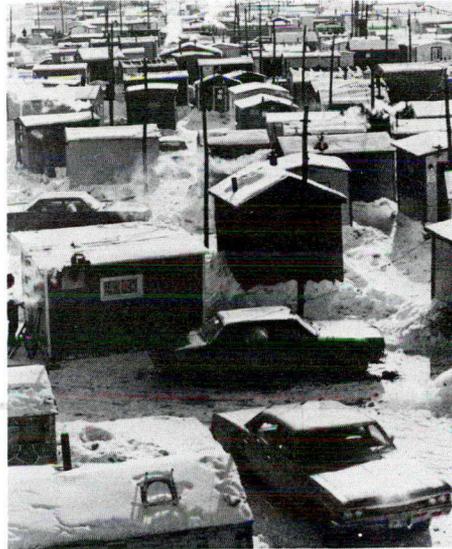
This small species, which is also called "little cod", "tommy cod", or "frost fish", normally lives in salt water but in winter it goes to fresh water to spawn along the sandy shoreline. An average-sized female, seven or eight inches long, may lay as many as 50,000 eggs and, as soon as they are hatched, the young go back down the St Lawrence to the sea.

Its winter habitat was formerly the channels at the mouth of the St Maurice River, whence its popular name, channel fish. When the banks of the river became carpeted with bark deposits from logs being towed to paper mills, the fish sought other places to spawn; one of them was the St Anne River.

It is said that Ste-Anne-de-la-Pérade is really two villages – the permanent



Inside one of the huts at Ste Anne-de-la-Pérade two tiny "tommy cods" are caught. Thousands of eager fishermen flock to the area each winter to try their luck through the frozen surface of the St Anne River, 50 miles from Quebec City.



Suddenly, every year, against a background of ice, frost and snow, the St Lawrence and the St Anne River come alive with gaily-coloured little huts, from which millions of small fish are caught in the short time between December and mid-February.

one and the temporary site, famous for its winter fishing. The hundreds of little huts are equipped with all comforts, including electricity and telephones. In the broad streets of the fishing village, fishing tackle, restaurants and taxis can be found. Each fisherman spends an estimated \$12 a day for food, gas and hut rental. Last year three million fish were caught –



Who cares about weather? Thick furs, warm tuques and mittens, comfortable boots and joie de vivre defeat the worst of the cold season.

an average of 76 an hour for each hut.

Inside the huts the inhabitants play cards, tell far-fetched fish stories and celebrate their catch. Someone proposes a toast and good humour prevails. In the village there is singing and dancing and laughter as the most spirited work off their excess energy.

About \$1 million is spent annually in the Ste Anne-de-la-Pérade area alone – an important asset to the economy of the St Maurice Valley. (Photos courtesy Tourist Branch, Government of Quebec.)

### Montreal book fair gets federal help

The Federal Government has announced further initiatives to strengthen the book-publishing industry in Canada and promote export of Canadian books.

Secretary of State J. Hugh Faulkner said recently that the Federal Government would contribute \$500,000 to cover the costs of 700 stands for the Montreal International Book Fair to be held from May 15 to 19.

"The MIBF is a natural extension to the existing programs for the promotion and expansion of Canadian book publishing in the international market," Mr. Faulkner said.

The prime object of the Montreal fair is to create a meeting place where book publishers and other industries relating to book publishing from all over the world will be able to establish contacts, negotiate arrangements, buy and sell subsidiary rights and contract for manufacturing services. A secondary benefit is the cultural and educational aspect of the event since international sales of books are an effective means of disseminating arts, ideas and cultural heritages.

The event is similar to the Frankfurt Book Fair held annually in October. Close to 4,000 firms from 56 countries exhibited at the last Frankfurt fair, which attracted more than 100,000 visitors. Organizers of the Montreal International Book Fair estimate that more than \$7-million worth of business could be transacted by the Canadian book-publishing industry during the first three fairs. In addition, it is estimated that Canadian book manufacturers and suppliers of raw materials could negotiate significant foreign orders.

### New national atlas

A bound version of the fourth edition of *The National Atlas of Canada* is now available in bookstores across the country.

This edition, the first under the Federal Government's new national atlas program, which calls for a revised version to be issued every ten years to coincide with the census, provides a view of the expanding and changing pattern of Canadian life and graphically records Canada's development.

The maps, graphs and charts have been developed and produced by the Geography Division of the Department of Energy, Mines and Resources' Surveys and Mapping Branch to give a full geography of the country in four parts — physical, historical, population and economic.

The first edition of Canada's national atlas, published in 1906, was the second national atlas produced in the world. Finland introduced the world's first national atlas in 1899. The second Canadian edition was issued in 1915 and the third in 1958.

### Waste ash as concrete ingredient

"Waste not, want not" best describes the attitude of a civil engineer at the University of Toronto who is advocating the use of a waste product called "fly ash" for making concrete.

According to Professor R.H. Mills, fly ash — a powdery substance produced by power-generating plants that burn pulverized coal — could be used as a partial substitute for Portland cement to satisfy increasing demand for this essential ingredient of concrete. "The next 20 years will see more concrete placed than the total

now in existence it is estimated," says Professor Mills. "This will require not only a greater expenditure of money for the high capital cost of more Portland-cement plants but also a search for viable substitutes for Portland cement."

Some engineering students and staff at the university have been investigating ways to improve the properties of fly ash for use in concrete production. They also have been trying to enhance the quality or purity of the particles of iron oxide extracted from this substance.

"The potential value of fly ash as a *pozzolan*, or cement-extender, is about \$5 a ton," Professor Mills estimates. "The iron, which is removed from fly ash before it is processed as a *pozzolan*, has a potential value of more than \$12 a ton."

Over a million tons of fly ash are removed annually from the flue gases of certain power-generating plants in Ontario by pollution-control equipment. However, fly ash is considered an expensive nuisance, since it costs anywhere from \$0.70 to \$1.75 a ton to dispose of (most of it is mixed with water and dumped into settling ponds). Developing a commercial use for fly ash would turn it into an asset.

"This has already been done for many years in Britain and Europe," says Professor Mills, "but because coal-burning power stations in Ontario are used to supply the peak power demand, it is difficult to control the carbon content of fly ash, and this diminishes its value as a substitute for Portland cement." But the problem can be overcome, and in fact, fly ash can improve the quality of concrete. For example, fly-ash concrete is less susceptible to expansion and contraction due to moisture gain or loss. "If this shrinkage can be appreciably reduced by use of fly ash," explains Professor Mills, "the potential savings in maintenance costs and increased service life can run into millions of dollars, since, in large concrete structures, shrinkage leads to cracking, and corrosion of the steel reinforcement."

Because fly ash converts lime, the most soluble component of concrete, into insoluble calcium silicates, fly-ash concrete is also more durable and resistant to weathering in unfavourable environments. It is slower to harden, but it may become stronger than Port-

land-cement concrete after about a month. Fly ash can be substituted for up to 35 per cent by weight of Portland cement in concrete.

Key to the U of T effort to improve the properties of fly ash as a substitute for Portland cement involves the use of additives which promote the growth of fibrous, rather than lumpy, material in the concrete just after it is placed. Engineers anticipate that this will make concrete less prone to cracking.

At the production level, the capital cost for processing fly ash is a fraction of that required for production of Portland cement, while the same holds true for the subsequent energy consumption of a working plant.

### Housing figures for 1974

The final count of Canada's housing starts reached 222,123, Central Mortgage and Housing Corporation announced last month. The 1974 figure represents a decline of 17 per cent from the record of 268,529 achieved in 1973.

Provincial starts for 1974 (with 1973 figures in brackets) were: Newfoundland 4,911 (4,831); Prince Edward Island 1,334 (2,122); Nova Scotia 6,008 (7,734); New Brunswick 5,861 (7,235); Quebec 51,642 (59,550); Ontario 85,503 (110,536); Manitoba 8,752 (11,531); Saskatchewan 7,684 (6,386); Alberta 19,008 (20,977), and British Columbia 31,420 (37,627).

Housing completions for 1974, at 257,243, were the highest recorded with the bulk of the increase being in single-detached dwellings — 129,704 units in 1974 as compared to the previous record of 122,696 in 1973. Totals for other structural types were: semi-detached houses and duplexes 12,509 (13,479); row housing 19,225 (14,832), and apartments 95,805 (95,574).

Dwellings under construction at the end of 1974 at 168,406 were down from the 207,236 record level of 1973.

During 1974, CMHC financed a total of 30,352 housing starts, compared to 29,027 in 1973. Approved lender and other sources of financing supported 31,057 and 160,714 units respectively in 1974, in comparison to 75,649 and 164,033 in 1973. □

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