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ADDRESS BY FINANCE MINISTER

In a speech to the Empire Club of Canada at Toronto on October 8, Mr. Donald Fleming, Minister of Finance, reviewed as follows the steps taken by the Government to meet the problems of a rapidly expanding economy:

"...We took prompt action in the summer of 1957 by such means as were within our power to offset the decline in business activity. We gave strong support to new housing construction; we increased substantially our own direct expenditures on capital projects; we reduced our own resources to increase those of the provinces and municipalities; we sustained and enlarged the general purchasing power of the Canadian public both by tax reductions and increases in pensions and other welfare payments. As the result of these and other governmental measures in the fiscal field, both the depth and the length of the recession in Canada were greatly reduced. Inevitably we incurred in the fiscal year 1958-59 a large deficit, -- not so large, however, as any of the estimates and prophesies concerning it:

"By the summer of 1958 the recession had passed its low point, and the tide turned.... By the spring of 1959 the Government again adapted its fiscal policy to meet these rapidly improving conditions.... We took a firm course designed to combat the perils of inflation and to preserve the purchasing power of the Canadian dollar without retarding the forces of recovery. Accordingly we raised taxes moderately and curtailed the expansion in Government expenditure. We announced a

fiscal programme which would cut the cash deficit of the preceding year almost in half and would come close to producing a balanced budget as the economy regained a normal high level of employment and incomes.... If...we continue to progress rapidly toward a high level of employment and income, and as capital expansion in the private sector resumes its accustomed rate of growth, we look forward to the time when the Government will cease to be a net borrower....

"I based the Budget on an estimate that our Gross National Product in 1959 would be approximately seven per cent higher than in 1958. This estimate was greeted by many with some surprise, indeed in a few quarters with derision. It is now evident that some of those who are responsible for directing business policies were not prepared for such a rate of growth and seriously under-estimated the demands that would be placed upon them. Indeed, it now seems clear that our 1959 GNP will exceed the estimate I made six months ago.

"This growth, and the fact that it was under-estimated by not a few persons in positions of responsibility in business, have produced some stresses and strains, particularly in the demand for and the supply of credit....

MONEY, CREDIT AND INTEREST

"In some respects money and credit are like any commodity: their price responds quickly to

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major changes in supply and demand. The price of credit is the level of interest rates. When the supply of credit is ample or the demand is slack interest rates fall; and when this situation is reversed interest rates rise. But interest rates also reflect the quality as well as the quantity of supply and demand. If lenders or investors develop doubts about the wearing or the lasting quality of the securities they are offered they will be reluctant to buy except at a lower price, that is to say, at higher rates of interest....

"While the Bank of Canada has a broad control over the money supply, it is the chartered banks that decide through their day to day actions how that supply of money is allocated. The overall limit of bank credit is controlled by the statutory requirement that each bank shall maintain a minimum cash reserve equal to 8 per cent of its deposit liabilities, and by an understanding between the banks and the Bank of Canada that each of the chartered banks will maintain in addition a minimum secondary reserve of highly liquid assets (i.e. day loans and Treasury Bills) equal to a further 7 per cent of its deposit liabilities. But beyond that it is for each bank to decide for itself, having regard to prudent banking practice, what proportion of its resources is put into loans, how much is invested in federal, provincial, municipal or corporate securities, or what amounts should be committed to insured mortgages under the National Housing Act. In the allocation of these resources neither the Government nor the Bank of Canada has any authority to direct how the chartered banks shall act.

MONEY SUPPLY

"While the Government has no direct control over money supply and the volume of credit, nevertheless its fiscal and debt management policies unquestionably affect the total credit situation. During the period of the recession the large federal deficit that was deliberately engendered was matched by an increase in the money supply by the Bank of Canada to a degree which the Bank believed to be appropriate to the circumstances. As conditions changed from recession to recovery to expansion, the Government adapted its fiscal policy by moving in the direction of a balanced budget. Concurrently, the Bank of Canada having regard to these changed conditions, and being particularly concerned with the inflation psychosis that appeared to be spreading into Canada from the United States, took steps to stabilize the money supply....

"While the total money supply has remained relatively stable over the past twelve months, except for seasonal variations, may I emphasize that there has been no freezing of the money supply. Fluctuations always occur from month to month.

"It is worth recording that from the beginning of the recession to the present time the proportionate expansion of money supply in

Canada has been significantly greater than in the United States. Over the past two years the United States money supply has increased 10 per cent, while ours has increased 16 per cent.

"...There are those who contend that a measure of inflation would today bring about a reduction in interest rates. This is a fallacy of the deepest dye. Inflation would divert savings into equities and diminish the supply of loanable funds. The result would be to force interest rates upward.

CURRENT CREDIT SITUATION

"I have already drawn attention to the extraordinary demand in 1959 for commercial credit in Canada, and to the fact that the existing shortage is the outcome of the free play of the strong forces of economic growth and is not attributable in any degree to any reduction of supply. Restrictions on credit are never popular. Refusals of credit tend to provoke strong personal resentments. We should have Utopia if every credit-worthy borrower could obtain all the money he requires at reasonable rates of interest, on other terms to his satisfaction, under conditions of full employment, a steadily expanding economy and stable prices. Unfortunately, this is a form of coexistence not yet completely attained in this imperfect world.

"You would expect me to comment on the restrictions which the chartered banks have imposed on their own lending operations.

"I have often declared my belief that the chartered banking system of Canada is as good as any in the world. It enjoys very high respect in other countries. Over the years our banking system has on the whole well served the expanding needs of the dynamic Canadian economy. I have appreciated the co-operation of the chartered banks in many matters of mutual concern. It would be unreasonable to expect perfection of any banking system. In such situations as the present, however, it is essential that the public should clearly understand where responsibility rests.

"Parliament has conferred on the banks valuable charters containing many rights and privileges. I think we will all agree that these should be exercised with due regard for the national interest.

"The banks are not the only source of loanable resources, but they are normally the first-line source. In times of enormous demand as throughout 1959, it is vital that the best possible use be made of the existing available lending resources, for these are not unlimited. I am particularly concerned for the legitimate credit needs of farmers and small borrowers, that their interests may not suffer in the keen competition which exists for large and very profitable accounts....

"The commitments to the larger borrowers have continued greatly to exceed the actual loans, and have obliged the banks to keep

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FEDERAL BY-ELECTIONS

The Progressive Conservatives held the Hastings Frontenac riding and the Liberals came back in the suburban Ottawa constituency of Russell in two federal by-elections in Ontario on October 5.

The standings were:

Russell -	
Liberals	10,369
Progressive Conservatives	7,887
Co-operative Commonwealth Federation	636
Hastings-Frontenac -	
Progressive Conservatives	5,948
Liberals	2,208

Party standings in the House of Commons are now: Progressive Conservatives, 208; Liberals, 49, and CCF, 8.

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NUCLEAR RESEARCH CENTRE

Atomic Energy of Canada Limited will build a new nuclear energy research and development centre in Manitoba, Mr. Gordon Churchill, Minister of Trade and Commerce, has announced.

Canada's only other nuclear research centre is the Chalk River establishment of Atomic Energy of Canada Limited on the Ottawa River, about 150 miles west northwest of Ottawa. The government-owned company, however, has a Nuclear Power Plant Division in Toronto and a Commercial Products Division in Ottawa.

The directors and management of Atomic Energy of Canada Limited recommended to the Federal Government that to permit the Chalk River centre to operate at its maximum efficiency the centre should not continue to expand. Among the major facilities at Chalk River are four research reactors including the NRX and NRU reactors, particle accelerators and chemical and metallurgical plants. The number of workers is approaching 2,500, of whom over 400 are university graduates.

Over the next twenty-five years the research and development effort in the field of nuclear energy must expand if Canada is to maintain its position as one of the leading atomic energy nations. During this period several new major research and development facilities will have to be built.

Preliminary discussions have been held with the Government of Manitoba and it is expected that site surveys will be carried out in Manitoba within the next few months and a site selected by early next year.

The construction of buildings and laboratories and the installation of equipment and technical services at the site will begin with the next major project to be undertaken by Atomic Energy of Canada Limited in the research and development field. This may be an organic-cooled, natural uranium-fuelled, heavy water-moderated power reactor experiment in about two years' time.

Two power station projects are now under way in Canada. A 20,000 kilowatt (electrical) station, known as NPD (Nuclear Power Demonstration), is being built near Rolphton, Ont., as a co-operative project of Atomic Energy of Canada Limited, Canadian General Electric Co. Ltd., and Ontario Hydro. It will go into operation in 1961. Detailed design for a 200,000 kilowatt (electrical) station, known as CANDU (Canadian Deuterium Uranium), is now being done by A.E.C.L.'s Nuclear Power Plant Division. This station is scheduled for completion in 1964 at a site nine miles north of Kincardine, Ontario, on the eastern shore of Lake Huron.

It is expected that over the coming years the new centre in Manitoba will expand into a major nuclear energy research and development establishment. The growth of such a centre in Manitoba will support the general scientific and technical development of Western Canada.

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ATOMIC ENERGY AGREEMENTS

The following is the text of the joint communique issued by the Department of External Affairs and the Commission of the European Atomic Energy Community (Euratom) on the occasion of the signing of two agreements for co-operation in the peaceful uses of atomic energy.

The Ambassador of Canada in Brussels and the Commission of Euratom signed an Outline Agreement between the Community and the Canadian Government on October 5.

The President of Atomic Energy of Canada Limited and the Commission of Euratom also signed a Technical Agreement.

The Outline Agreement lays down conditions under which Canada and the European Atomic Energy Community can ensure exchanges of data, materials and equipment of all kinds between Canadian and European individuals and corporations.

The Technical Agreement, which comes under the preceding agreement, provides for a joint research and development programme in the field of reactors moderated by heavy water.

Each of the two Parties will appropriate \$5 million for this programme over a period of five years and will be provided with the full results of research thus carried on jointly. The two agreements will allow the whole of the Community to profit by Canadian experience in the field of natural uranium reactors moderated by heavy water, and will provide Canada with the technical support of European industry for construction and practical learning. The interest shown by firms of the Community in this type of reactor points to fruitful co-operation between European and Canadian industrialists and research scientists. It is to be recalled in this connection that a large group of industrialists from the six Community countries will visit the atomic centre of Chalk River shortly, on the invitation of the Canadian authorities.

GATT CONFERENCE

Mr. Gordon Churchill, Minister of Trade and Commerce, has announced the Canadian Government's decision to participate in the tariff conference which is to be convened in September 1960 under the auspices of the GATT.

Mr. Churchill said that this conference should provide new opportunities for improving the terms of access for Canadian exports to the United States and to other markets throughout the world. This will be of particular importance in the light of the substantial progress already made by many countries in relaxing discriminatory import restrictions and the prospects that now exist for further progress. The conference will also provide the first opportunity for detailed examination and negotiation of the proposed common tariff of the European Economic Community.

The forthcoming tariff conference was proposed last year by the United States Government as part of an international programme undertaken by GATT countries to facilitate the continued expansion of world trade. The member countries of the European Economic Community will be entering these negotiations on the basis of their proposed common external tariff. This new common tariff will, upon completion in the next few months, be submitted for examination by the other GATT countries prior to the negotiations. It is envisaged that other countries, including certain new members of GATT, will also participate in this tariff conference. Negotiations will be carried on, as in the past, between pairs or groups of countries on a product-by-product basis and the resulting concessions will be extended automatically to all GATT countries.

Government Departments in Ottawa are now making preparations for these negotiations. In order to aid in these preparations, Canadian business firms and organizations interested in trade with the various member countries of the GATT are, as on previous occasions, invited to submit representations to the International Trade Relations Branch of the Department of Trade and Commerce, Ottawa.

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GIFT TO JAPAN

Prime Minister Diefenbaker has announced that the Government of Canada had authorized a second grant of \$10,000 to the Japanese Red Cross Society, to provide emergency relief assistance to the victims of typhoon Vera which struck Japan on September 26. An earlier grant of \$10,000 had been approved by the Government on September 28.

Both these grants came from the International Relief Fund which was established by Parliament for the purpose of providing assistance to disaster victims in other coun-

tries. Contributions to the Fund, which was known originally as the European Flood Relief Fund, came from the Federal Government, Provincial Governments and private Canadian citizens. The Fund is administered by the Canadian Red Cross Society which gives its services and facilities free of charge as its contribution to the Fund.

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POPULATION INCREASES

Canada's population increased 266,000 in the first eight months of this year to an estimated 17,550,000 at September 1 from 17,284,000 at the beginning of the year, according to the Dominion Bureau of Statistics' quarterly estimate. This year's January-August increase was almost identical to that of a year earlier (267,000), but considerably smaller than 1957's record eight-month increase of 401,000 when immigration contributed heavily to the gain.

Ontario continued to have the largest numerical growth in population with an increase in the first eight months of this year of 103,000 to 5,990,000, from 5,887,000 at January 1. Quebec was next with an increase of 77,000 to 5,032,000 from 4,955,000; Alberta third with a rise of 25,000 to 1,253,000 from 1,228,000, and British Columbia fourth with a gain of 18,000 to 1,581,000 from 1,563,000.

The estimated population of Saskatchewan increased to 906,000 from 896,000 at the beginning of this year; Manitoba to 888,000 from 878,000; Nova Scotia to 718,000 from 715,000; New Brunswick to 593,000 from 584,000; Newfoundland to 452,000 from 443,000; and Prince Edward Island to 103,000 from 101,000.

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ARMY OFFICERS MEETING

A meeting of senior United Kingdom and Canadian Army officers will be held in Ottawa on October 29 and 30 to discuss the Canadian "Bobcat" and similar British developments. Army Headquarters has announced.

The purpose of the meeting is to try to find a basis of agreement on common requirements for tracked amphibious vehicles, with a view to reaching some form of standardization. The Bobcat is being developed for possible use by the Canadian Army.

Representing the British Army will be Maj.-Gen. D.G. Moore, Director of Weapons and Development; Maj.-Gen. D.A. Kendrew, Director of Infantry, and Maj.-Gen. H.M. Liardet, of the Ministry of Supply. Canadian representatives will include Maj.-Gen. J.V. Allard, Vice Chief of the General Staff; Brig. H.W. Love, Deputy Quartermaster General (Design and Development), and Col. N.G. Wilson-Smith, Director of Combat Development.

ADDRESS BY FINANCE MINISTER

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available additional reserves to meet these very large lines of authorized credit. It is evident that had the banks not enlarged these lines of credit so substantially within the past year they would not have encountered such sudden and severe pressures as those which developed this spring and summer....

"In 1959 there has been no intervention by either the Government or the Bank of Canada. In May and in August the chartered banks acting on their own initiative imposed restrictions on their lending operations. In doing so there was no need for any of the banks to blame anyone else. Certainly there was no need for indulging in recriminations. The situation was the result of unprecedented demand for credit, and the lending resources of the banks were not unlimited. I deplore the attempt made in certain quarters under these circumstances to attribute to what is vaguely and conveniently called "Ottawa" the responsibility for these restrictions.

"...While the Government has no power to direct the actions of the banks in such matters, it is within the scope of its duty to bring to the attention of banks, and of any other business, considerations which it believes to be in the national interest; and I make no secret of the fact that I have strongly pressed the banks, both orally and in writing, to give priority to the credit needs of farmers and of small business within the framework of their resources and good banking practice.

"Again I stress that the fundamental cause of the present credit stringency is the rapid expansion of the Canadian economy, and that the only sound way to relieve this pressure and to maintain a sustained rate of growth in keeping with our expanding population and our rich resources is to increase our total supply of capital. We can increase our capital in only two ways, from our own savings and by borrowing from abroad. While we welcome foreign capital and we shall continue to need foreign investment, by far the better way is to increase our own capital resources by saving and by wise investment. The Government will pursue policies which will encourage saving and the sound formation of Canadian capital.

INFLATION

"There is a prevalent belief that a measure of inflation, called "creeping inflation" contributes to growth. Let me speak on this subject as clearly and emphatically as I can. There can be no compromise with inflation in any of its forms, including its insidious creeping form. The Canadian Government has chosen the course of maintaining a strong and stable Canadian dollar.

"...Canada enjoys no immunity from the dangers of inflation. Indeed, it has a special interest in avoiding those perils. If Canada does not maintain the stability of her currency while all of the other principal countries are doing so with theirs, we will most certainly be priced out of world markets, with results that will be a catastrophe for Canada....

"I am asking for the support of the Canadian public, to the fullest degree that Canadians are prepared to give it to us, in our efforts to preserve the stability of the Canadian dollar. We must all recognize that there is in the world today a shortage of capital, and Canada is experiencing that shortage. I ask the Canadian people to refrain from asking for governmental expenditures which are not strictly necessary now. By preserving the value of the dollar, we shall strengthen confidence in Government credit, which will in turn arrest the upward movement in interest rates and restore bond values. This is a task in which every Canadian has a direct interest.

"'The task of maintaining the soundness and stability of currency is never ended', said President Eisenhower recently. We must be vigilant, realistic and determined in our efforts to resist the perils of inflation..."

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GROSS NATIONAL PRODUCT

Canada's gross national product continued to advance in the second quarter of 1959, and was at a seasonally adjusted annual rate of \$34.7 billion, a gain of 2 per cent over the level of the first quarter, the Dominion Bureau of Statistics reports. This most recent advance continues the upswing which was showing increasing vigour in the closing months of 1958, and has brought the gross national product in the second quarter of this year to a level some 7 per cent above the same quarter one year earlier. As in the preceding quarter, the second quarter gain in gross national product was represented largely by an increase in the physical volume of goods and services produced; however, final product prices were fractionally higher during the quarter.

Business outlays for new plant and equipment made an important contribution to the rise in gross national product during the second quarter. Both non-residential construction and investment in new machinery and equipment rose above the first quarter by 5 per cent, on a seasonally adjusted basis. This was the first significant increase in business capital expenditures since the two-year decline which began in the early part of 1957. The reversal in trend in this important component of final demand represents a new expansionary element in the current business upswing.

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EXPENDITURE

Partly as a result of special factors, exports of goods and services, which were down in the first quarter, rose sharply in the second quarter, accounting for more than half of the rise in total gross national expenditure. The gain in exports was fairly widespread and reflected rising demands of the United States economy for Canadian export goods, especially in the wood and metal products groups. Personal and government expenditures on goods and services continued to rise in the quarter, but the advance in consumer spending was very modest, amounting to only about 1 per cent. Outlays for new housing fell further, continuing the first quarter decline, while the rate of business inventory accumulation moderated from the high level recorded in the first quarter.

Over the course of the past year, reversals in trend have occurred in a number of major categories of demand, and the pattern of the nation's total expenditure has shown a marked change. Business inventories have swung around from a position of heavy liquidation in the second quarter of 1958, to one of net accumulation; the turn-around here has been the equivalent of about \$0.6 billion in terms of new demands on production. The downward drift in business capital expenditure for new plant and equipment which was moderating in the latter part of 1958, has been reversed, and outlays by the business sector are now providing a positive stimulus to the rise in final demand. Both non-residential construction and machinery and equipment outlays are, of course, still far below the very high levels reached at the peak of the capital investment boom in 1957; but machinery and equipment outlays in the second quarter were running 10 per cent above levels a year ago, while non-residential construction outlays were only a little below the second quarter of last year.

Recovery in the general pace of business activity has been accompanied, as in the past, by a reversal in the trend of imports; after declining by 10 per cent from early in 1957 to a low point in early 1958, imports of goods and services have turned sharply upward in the past twelve months, and are now running 9 per cent above levels a year ago. Outlays for new housing, which rose by 40 per cent from the first quarter of 1957 to the end of 1958 and provided a strong sustaining force throughout the recession period, have now been moving downward for two quarters. These reversals in trend in major categories of gross national expenditure during the past twelve months have produced a pattern in the over-the-year comparisons 1958 to 1959 which differs sharply from that of the preceding 12-month period.

INCOME

The flow of income to the personal, business, and government sectors during the past twelve months has also been marked by changes in the trend of import income components, and by shifts in the compositional pattern of the income aggregates. There has been a sharp change in the composition of personal income as between the proportion derived from productive activity (notably wages and salaries), and the proportion arising through transfer payments from government. From the second quarter of 1957 to the second quarter of 1958, transfer payments accounted for more than 49 per cent of the rise in total personal income. However, between the second quarter of 1958 and the second quarter of 1959, transfer payments accounted for only 11 per cent of the rise in total personal income, with the remainder of the increase coming from gains in those income components which are linked directly to productive activity. Labour income, for example, has shown an over-the-year gain of 8 per cent in 1959, compared with a much smaller gain of less than 3 per cent in the preceding 12-month period.

Turning to the business sector, corporation profits have shown a sharp reversal in trend during the past twelve months; having declined steadily from a peak early in 1956, they turned sharply upward in the third and fourth quarters of 1958, and have shown little change in either direction in the first half of 1959. In the second quarter of this year they were running 23 per cent above levels of a year ago, compared with a decline of 14 per cent in the same comparison made one year earlier. The sharp rise in profits during the past year, and the lesser role of transfer payments as a component of personal income, has altered the relationship between national income and personal income. Whereas a year ago, personal income was rising at a much more rapid rate than national income, in the current period personal income has lagged slightly behind the advance in national income.

One of the striking developments of the current period of expansion has been the sharp recovery in the flow of tax revenues to the government sector. From the second quarter of 1957 to the second quarter of 1958, the decline in tax revenues from the three major tax sources amounted to almost 7 per cent, for all levels of government combined. From the second quarter of 1958 through to the second quarter of 1959, the rise in revenues from these three sources has amounted to about 16 per cent, reflecting the recovery in profits, higher employment and earnings, a higher level of imports, sales and shipments, and increases in tax rates. About three-fourths of the rise in revenues during the past twelve months represents higher revenues collected by, or accruing to the Federal Government.