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Canadian Weekly Bulletin

Vol. 24, No. 3 January 15, 1969

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CANADA'S ECONOMY IN 1968 AND THE OUTLOOK FOR 1969

The following is a year-end statement by Mr. Jean-Luc Pepin, Minister of Industry and of Trade and Commerce:

1968 has been another good year for Canada. Against the background of a sharp acceleration of the rate of growth of world production and trade, the forward momentum of the Canadian economy picked up significantly. It now appears that the gross national product has increased by close to 8 per cent this year and national output in real terms by no less than 4 per cent. The growth of demand and output, however, has not been adequate fully to absorb the new productive resources becoming available. While employment on average is up to 2 per cent over 1967, unemployment has increased somewhat and is now running at about 5 per cent of the labour force, seasonal factors aside.

Total industrial output is up 4.5 per cent this year compared with last, and manufacturing has shown a gain of over 4 per cent. Gains in real returns to manufacturers and the consequent increase in demands upon other sectors of activity have been an important factor contributing to new job opportunities in the economy as a whole.

AUTO PARTS TOP EXPORTS

In varying degrees, continental rationalization of production continues to impart new vitality to Canadian manufacturing, and industries extensively involved in this process are in the forefront of this year's advance. Motor-vehicle assemblies have exceeded 1.1 million units in 1968 and output of vehicles and parts combined has increased nearly a fifth in the past year and three-fifths since 1964. Annual exports of automotive products have reached the 2.5-billion mark to become by far the largest single Canadian export. While imports of automotive products still exceed exports, the deficit incurred in 1968 is the smallest in a good many years. Output of aircraft and parts is also up substantially in 1968, this being another industry heavily involved in two-way trade. In iron and steel, the strong growth trend of preceding years has been sustained in 1968, reflecting both higher exports and the expanding domestic needs of other export-oriented industries.

Among industries encountering less favourable conditions are the newsprint producers, which, faced with newspaper strikes and expanded newsprint capacity in the United States, have barely maintained the 1966 production level. Also, various equipment and material-producing industries have been adversely affected by the slower tempo of investment spending over the past two years.

DOMESTIC SPENDING

Among the principal domestic sectors of demand, new expansive stimulus in 1968 has come mainly from housing and from consumer spending. Notwithstanding the high cost of mortgage money, about 15 percent more houses have been started this year compared with last and the value of residential construction is up substantially. Meanwhile, consumer spending has more than kept pace with growth in the economy, reflecting the continuing strong upward movement of personal incomes and sustained consumer buying interest, particularly for durables and services.

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TRADE SURPLUS RECORD

In 1968, as in the preceding year, the main impetus in the Canadian economy emanated from the growth of sales in foreign markets. Exports in 1968 are up by $2 billion, or 18 per cent. Imports have also increased, but by a lesser amount. Canada's surplus on merchandise trade has risen from $5 billion in 1967 to well over $1 billion in 1968 – by far the largest trade surplus ever realized in a peacetime year.

Foreign tourist receipts have approximated the $1-billion level and the balance on tourism compares favourably with the achievement of preceding years, with the exception of 1967, Canada's centennial year. While Canada's deficit on all service transactions is much higher in 1968 than in the preceding year, this increase has been more than offset by the improvement on merchandise trade. Thus, Canada's position on all current transactions with the rest of the world is now closer to balance than at any time in the past 15 years.

OVERSEAS MARKETS

The dominant factor underpinning the sharp growth of Canada's exports in 1968 has been the accelerated tempo of business in the United States. Sales to this market have increased by a spectacular $1.75 billion, or 25 per cent, in the space of one year. In Canada's largest overseas market, Britain, a general policy of demand restraint has limited sales expansion opportunities but exports to this market have nevertheless shown a moderate advance. Exports to Japan, now our third largest market, are up moderately in 1968 following a spectacular 45 percent growth in 1967. Among other overseas markets, major gains have been achieved during the past year in Australia, West Germany and Belgium-Luxembourg.

Automotive products account for nearly two-fifths of the increase in Canada's exports and an even larger proportion of the rise in imports. Good export increases have also been achieved for copper, nickel, aluminum, iron ore, lumber, woodpulp, petroleum and natural gas, machinery of various kinds and aircraft. Wheat sales, on the other hand, are lower in 1968.

1969 FORECAST

Looking ahead to 1969, external market conditions may not be as favourable as in the year past. In the United States in particular, demand pressures are expected to ease somewhat and this would entail less spectacular growth in sales to this market. In Britain and also in France, the recent intensification of restraint programmes directed in particular toward improvement in external-payments positions will dampen, for the time being, new sales expansion opportunities. On the other hand, prospects are good in a number of countries, particularly Japan, where recent strengthening in the external-payments position will permit a more expansive demand policy, and West Germany, where foreign sellers will benefit from steadily expanding demand coupled with lower levies on imports.

All things considered, a further growth in exports in the range of 5 to 10 per cent appears to be a realistic expectation for the coming year. The further Kennedy Round cuts to be made on January 1 by the United States on a broad range of products of interest to Canada will be helpful.

From within the Canadian economy, it is evident that new growth impetus will be provided by the rising trend of capital investment. A recent survey of investment intentions of large companies indicates that capital spending in the business sector will rise by something like 8 per cent in 1969, compared with 2 per cent in 1968. House-building activity also continues to point upward. In the consumer sector, a firm trend of personal incomes will provide underpinning for sustained growth of spending on consumer goods and services.

It is quite possible that any slowing down in export growth will be offset by stronger domestic demands, with the result that an active tempo of business activity will be sustained. How close the economy comes to realizing its full growth-potential will depend on how Canadians respond to the exacting challenges ahead.

UPWARD PRICE TREND

One worrisome feature of our current economic performance is the persistent upward movement of costs and prices. The price component of the gross national product increased by 3.9 per cent in 1967 and has increased only slightly less this year. Consumer prices rose by 3.5 per cent in 1967 and in 1968 are up by more than 4 per cent. This degree of price-increase places cumulative strains on the economy. It creates inequities in the distribution of income, particularly for those on fixed money incomes, it disrupts the investment process by adversely affecting savings and it erodes our competitiveness in international markets which, for a trading nation, such as Canada, is basic for sound growth and sustained prosperity. To date, the rise in prices has not prevented a good performance in foreign markets. However, in achieving this good showing, prices of Canada's exports in recent years have risen less than domestic prices generally. Clearly there is a limit to the amount by which domestic costs and prices can rise before they start to impinge our exports.

If increases in the general price level are to be held in check, income returns must be in line with the improvement in national productivity. Widespread efforts to achieve gains over and beyond the improvement in national productivity serve simply to erode the value of the dollar and disrupt the economy, and in the end, are self-defeating. Real income gains for the whole community come only through the more effective use of the nation's resources. It is by directing our efforts to real, as opposed to illusory, gains that Canadians will make the most of the promosing opportunities which lie ahead....

FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS

The following is part of a statement by Mr. E.J. Benson, the federal Minister of Finance, to a meeting of provincial ministers of finance and treasurers in reply to "criticisms that continue to be made that the Federal Government has ignored provincial needs and is proceeding in fiscal matters in a way detrimental to the continued development of a strong and equitable federalism":

...It is discouraging to hear these and similar charges repeated, not only because they detract from a harmonious co-operation in what are inherently difficult matters but also because they seem to overlook the many constructive changes over the past few years. The federal position is based on clearly-enunciated principles which were put forward two years ago and which I repeated at last month's meeting. I will not repeat them today but I will say that none of them has been challenged in principle in the discussions last month or today.

...The Government of Canada recognizes the difficulties that provincial and municipal governments are experiencing, as well as the Federal Government, in meeting the rising demands of the Canadian public for government expenditures. These demands for government expenditures are not matched by any corresponding willingness to subordinate private expenditures, and the combination of efforts to expand the public sector along with the support of a prosperous private sector in our economy is producing an inevitable problem in taxation, borrowing, and financing generally. It is evident that apart from the more westerly provinces, which have been able to balance their budgets in recent years, the provincial governments will need either to restrain expenditures more than they have contemplated or to secure additional revenues by one means or another.

The economic situation currently suggests that governments of Canada, in aggregate, should not be increasing their deficits in the current economic situation where we are all concerned about the dangers of inflation. The Government of Canada has tried to meet this situation itself by putting forward to Parliament programmes in which its own expenditures are held under restraint and additional taxes are proposed to avoid a budget deficit. The trends in provincial finance which are publicly evident show that, for most of the provinces, deficits are apt to increase unless action is taken either to curtail expenditures more substantially or to increase taxes. We have recognized that the poorer provinces have a very real problem under these circumstances and we have in the past two years increased our equalization payments substantially to help them meet it. We are also increasing our other programmes for the support of those provinces with less tax capacity or greater need. Even so, all provinces in this category are going to have to observe, I believe, extraordinary economies during this period when serious financial problems both in regard to taxation and borrowing confront all governments and municipalities. We have taken this action in regard to the poorer provinces and our programmes are under way.

In view of what has been said and published, I cannot now refrain from saying that, in my view, the Province of Ontario is inviting us to reduce our income taxes so that Ontario can use them instead; and that we should impose on all Canadians either higher taxes in some other form or reduced expenditure programmes across the country. Nothing specific on the latter is suggested. I do not believe that this is the right way to deal with the situation created by the growth of the expenditure programmes of Ontario and the persistent deficits they have incurred.

BORROWING PROGRAMME

Now I should like to turn to another point: that we should transfer revenues and assume a larger part of the combined deficits. The Government of Canada is not trying to avoid going to the market for funds to be used for constructive purposes in Canada. This year, our borrowing programme has been a very heavy one, as anyone familiar with the market is well aware. Next year, I have endeavoured to limit it to what we felt was a reasonable maximum demand – some $700 million. All of this will be required for extra-budgetary purposes – housing, farm credit, power projects, transportation projects, etc. These are constructive revenue-yielding programmes which warrant borrowing within the capacity of the country and the market. To suggest that we should go beyond this is to enunciate a doctrine that we should borrow because we are closer to the central bank. This appears to be a suggestion that the Federal Government should do the borrowing because it is able to inflate the currency better than the provinces. This is a doctrine I cannot possibly accept. The borrowing capacities of governments must be appraised on some other basis which recognizes monetary policy as something that must be determined in the national interest, not in the interest of any particular government.

References have been made in provincial statements to the tax-reform programme and our apparent unwillingness to consult with the provinces in the redesign of the income tax base. We have invited provincial views repeatedly on this subject. We have promised to take up our ideas with the provinces. I would welcome a discussion of provincial views on our estate-tax changes now that they have been put forward. No one can argue that we have not had provincial revenue considerations in mind in the proposals that we put forward in October. That is evident in their nature and scale. Clearly, all provincial governments do not agree on the doctrines relating to death taxes. We simply do not agree with some of these provincial doctrines that have already been published and some of which have been conveyed to us directly, particularly those who feel that taxes of this kind should not be used.

If provinces want to make observations about other elements of other modest instalments of tax reform now before Parliament I should be glad to welcome them, and the sooner the better. For example, if they have views about the taxation of insurance companies, by all means let us know and

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we should be quite prepared to sit down and discuss their suggestions....

SHARED-COST PROGRAMMES

A good deal was said by one or two provinces about the federal initiative in shared-cost programmes. It was charged that the Federal Government virtually forced the provinces into many shared-cost programmes and now seeks to withdraw, leaving the provinces with full responsibility for these programmes without equitable fiscal compensation. Neither of these statements is really fair, given the facts. Most of the shared-cost programmes, including for example, hospital insurance, the Canada Assistance Plan, the Trans-Canada Highway, rural rehabilitation and regional development, and others, were supported and welcomed by a majority of the provinces when they were introduced. One case in particular is so recent it is hard to understand how the circumstances can have been forgotten so soon. I refer to the Canada Assistance Plan. This programme could well be described as a federal response to a provincial initiative. In no small part it was developed because of provincial insistence upon a more generalized and more generous federal approach to co-operation with provincial governments in carrying the burden of more adequate assistance to all categories of persons in need. Moreover, we frequently have heard and continue to hear calls for the further federal initiatives to help the provinces meet new needs – to cite only a few examples, for a second Trans-Canada Highway, for enlarged programmes in public housing, transportation and urban development, for extension of hospital insurance to include mental and tuberculosis institutions, and for the further broadening of our joint welfare programme.

What is implied by these statements which, in effect, charge that the Federal Government is in large part responsible for provincial financial problems because it forced them into the shared programmes? Is it really meant that no publicly-supported, universally-available system of hospital insurance should exist in Canada? Is it really meant that the Trans-Canada Highway was a mistake and should not have been built? Is it really meant that the lower income provinces should be left to fend for themselves in dealing with their acute education, welfare and development problems? In more general terms, is it really meant that there should be no floor or national standard of services which Canadians have a right to expect from all their governments?...

MUSEUM WORK

During recent months, the National Museum of Man, one of the complex of the National Museums of Canada, has let contracts valued at more than $300,000 for study and research.

Most of the 72 contracts are now underway, some are already completed, and others have yet to be started.

The contracts, which are carried out in addition to research conducted by the staff of the Museum, are concerned with such diverse subjects as Latvian folklore in Toronto, the restoration and preservation of a silk battle flag, the cultural ecology of Canadian Eskimo groups, the religious beliefs of the Stoney (Dakota) Indians of Alberta, and the Gaelic spoken in Nova Scotia.

IGNATIEFF TO REPLACE BURNS

The Secretary of State for External Affairs, Mr. Mitchell Sharp, has announced the appointment of Mr. George Ignatieff, at present Permanent Representative and Ambassador to the United Nations, as Permanent Representative and Ambassador of Canada to the Conference of the Eighteen-Nation Committee on Disarmament in Geneva. He will replace Lieutenant-General E.L.M. Burns, who is retiring from the public service.

Mr. Ignatieff's successor in New York will be named later.

SALUTE TO GENERAL BURNS

In making this announcement, Mr. Sharp paid particular tribute to General Burns, who has been one of Canada's foremost public servants as soldier, administrator and diplomat. His distinguished military career began with service in the First World War and culminated with the exercise of major command responsibilities during the Second World War. After the war he was instrumental in the development of Canada's programmes for veterans and became Deputy Minister of the Department of Veterans Affairs. In 1954, General Burns began a new career with the United Nations as Head of the United Nations Emergency Force in the Middle East, establishing an international reputation for both himself and Canada. As adviser to the Canadian Government on disarmament and leader of Canadian delegations to disarmament conferences since 1960, he has been able to make a major contribution to international discussion in this field during a period when, with the signature of the Partial Test-Ban Treaty and the Non-Proliferation Treaty, the world has at last begun to take practical steps towards arms control.

BIRTHS, MARRIAGES, DEATHS

There were 28,228 births registered in provincial offices in Canada during November compared to 30,191 in November 1967. The cumulative total was 1.6 percent lower than that recorded in the corresponding period last year although half the provinces reported increases (Newfoundland, Prince Edward Island, Manitoba, Saskatchewan and Alberta). In November, there were 17,665 marriages, compared to 14,408 in November 1967, and the cumulative total was 5.4 percent higher than in 1967, with only Prince Edward Island and New Brunswick reporting decreases. Deaths in November numbered 11,475 (12,514 in November 1967), while the 11-month total rose by 2.8 per cent, with Prince Edward Island, Nova Scotia, and New Brunswick reporting decreases.

NEW MEASURES AGAINST RHODESIA

The Department of External Affairs has announced the adoption under the United Nations Act, 1947, of Order-in-Council PC 1968-2339, dated December 20, which will implement United Nations Security Council Resolution 253 of May 29, 1968. The resolution, which provided for comprehensive sanctions against trade and financial relations with Rhodesia, was adopted by the Security Council under Chapter VII of the United Nations Charter. Compliance with its mandatory provisions is an international legal obligation on all United Nations members. The sanctions are intended to persuade, through pressure on Rhodesia's economy, the illegal regime of Mr. Ian Smith and his associates to give up their rebellion and permit a return to constitutional government.

The resolution of May 29 imposed few new obligations on Canada, which has had a complete trade embargo (with certain humanitarian exceptions) against Rhodesia since February 1966. In response to a Security Council resolution of December 16, 1966, a set of regulations governing trade with Rhodesia and certain extra-territorial activities of Canadian citizens was established under Order-in-Council PC 1967-323 of February 21, 1967.

The Rhodesia regulations that have now been adopted maintain these features of the previous ones; a new aspect involves financial transactions. It is now illegal for Canadians to send money to Rhodesia unless it is for the purpose of a pension or annuity benefit or for medical, educational or humanitarian purposes. Another provision of the new Regulations is designed to prevent flights by Canadian aircraft to Rhodesia and the co-ordination of air services between Canadian and Rhodesian aircraft.

The Government also intends, by administrative action for which it already has legislative authority, to implement the Security Council's prohibition on the entry to Canada of persons travelling on Rhodesian passports and of persons, other than Canadians, who have assisted, or may assist, the unlawful actions of the illegal regime.

The Regulations provide for application to the Minister of Trade and Commerce for a ruling whether, in borderline cases, a particular act is prohibited.

Canada's compliance with the resolution has been brought to the attention of the Secretary-General of the United Nations and details of the new Regulations are being brought to the attention of Canadian business firms and financial institutions.

INSTITUTE OF INDIAN STUDIES

Canadian colleges and universities with an interest in Indian studies have been invited to apply for membership in the Canadian Institute of Indian Studies, which has just been established. (See also *Canadian Weekly Bulletin*, Vol. 23, No. 35, dated August 28, 1968, Page 1.)

The new organization, to be known as the Shastri Indo-Canadian Institute in honour of the late Prime Minister of India, Lal Bahadur Shastri, has its head office at McGill University. Other founding members are the Universities of British Columbia and Toronto and the National Library of Canada.

The main objective of the Institute is "to promote and foster growth of research in Indian studies in Canadian universities and thereby contribute to greater understanding of Indian life and culture" in Canada.

Programmes of studies and research in India in the fields of humanities and social sciences will be undertaken by scholars chosen from Canadian universities and colleges. The Institute will also support other academic programmes and activities relating to India and will acquire library materials for distribution among the founding members.

There will be two advisory councils, one in India and the other in Canada. The Indian costs of the Institute will be met out of the fund of counterpart *rupees* accruing from Canadian food and commodity aid to India. The maintenance costs of the institute in India are estimated to be about $450,000 during the first three years.

CHEVRIER RETIRES

Mr. Lionel Chevrier retired from the public service at the end of 1968. Prime Minister Trudeau, speaking of Mr. Chevrier's lifelong contribution to the public life of Canada said: "Few Canadians can equal Mr. Chevrier's record of service. On behalf of the Government and people of Canada, I should like to express to Mr. Chevrier my good wishes upon his return to private life."

Mr. Chevrier was first elected to the House of Commons in 1935. His first office was that of Parliamentary Assistant to the late C.D. Howe, then Minister of Munitions and Supply. In 1945 he joined the King Government as Minister of Transport, a post he held for ten years. In this post, he played a key role in the negotiations leading up to the construction of the St. Lawrence Seaway. Mr. Chevrier left the Government in 1954 to become the first President of the St. Lawrence Seaway Authority. The construction of the Seaway was largely accomplished under his leadership.

Mr. Chevrier returned to the House of Commons in 1957 and became President of the Privy Council in the St. Laurent Government. He joined the Pearson Government in 1963 as Minister of Justice and Quebec Leader, posts he held until his resignation in 1964 to become Canadian High Commissioner in London. He returned to Canada in 1967 as Ambassador and Commissioner-General for visits of Heads of State to Expo 67.

Mr. Chevrier has since carried out two important missions for the Government, the first to the French-speaking nations of Africa, to study opportunities for effective Canadian aid to these countries, and the

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second to the United States, where he fulfilled a number of important speaking engagements and made a special study of Canadian information activities in that country.

DEAFNESS FROM TRACTOR NOISE

Farm tractors are causing permanent loss of hearing to thousands of farmers, according to a recent study supervised by the Department of Agricultural Engineering, University of Alberta, and the Industrial Health Services Division of the Alberta Department of Health. The paper prepared on this study deals specifically with farm-tractor noise, its immediate effects on the driver and its possible long-term effects as a health hazard. It states that the noise of the majority of tractors is well above safe limits for hearing and may be causing many tractor operators to go permanently deaf.

To determine the noise level of the major contributors to farm noises, tests were run on 19 tractors, including seven well-known makes, some with cabs. The tractors tested ranged from 1947 to 1967 models. All but three were diesels.

The results showed that the mean average noise sound pressure level was 104 decibels. The highest individual level recorded was 114 decibels on a new tractor where the operator had removed the muffler "because it got in the way", to a low of 92 decibels. An average noise level of 104.3 dbs was recorded on tractors with cabs, against 103.9 dbs for tractors without cabs.

These noise levels can be compared to a noisy home, which rates 40 to 60 dbs; an automobile at 20 feet, 70 to 80 dbs; a power lawn mower, 100 to 110 dbs; and a loud automobile horn at 3 feet, 110 to 120 dbs.

Tests were made of tractor drivers' hearing to determine the effect of the noise. An audiometer was used to detect any deafness ascribed to tractor driving. The human ear is responsive to frequency ranges from about 16 to 16,000 cycles a second for normal sound intensity levels. The nerve endings in the inner ear are susceptible to noise damage, a noise-induced deafness which cannot be helped by hearing aids or surgery.

TEST RESULTS

The development of high-tone sensorineural hearing loss seems to be part of the natural course of growing older and the drivers tested show little difference from others in their age group in the low-frequency range. A 10-to-12 decibel greater hearing loss, however, was indicated in the high-frequency range. Individual readings of those tested showed that the younger group suffer a greater hearing loss than that attributed to natural aging in the high-frequency range, while the older group shows the loss moving into the speech frequencies of 2,000 and 3,000 cps. The temporary threshold shift for tractor drivers working an average of 4.2 hours on tractors with a mean noise level of 104 dbs shows that the losses are fairly consistent in all frequencies tested. Although these losses are only temporary, it is possible they may become permanent.

Drivers of farm tractors may not notice that they are slowly going deaf, when in fact they are. They can protect themselves by using ear-muffs or ear-plugs. It is concluded by this report, however, that tractors could be made less noisy by modification at the factory.