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YOUR NORTHERN NEIGHBOUR

An address by Mr. D.C. Abbott, Minister of Finance, delivered to the Bond Club of Chicago, on May 12, 1950.

It is a great pleasure and privilege for me to be the guest speaker today of the Bond Club of Chicago. I always enjoy my visits to the United States and the farther I get into your country, the more I enjoy them. The warmth of your country's welcome to a stranger seems to increase as one approaches its centre and, if I have read your literature correctly, I am now at the very centre of its population and the great hub of its industry and commerce. Some of my American friends have often told me that they, too, have a "homey" feeling when visiting Canada. It is easy to see why we two neighbours find ourselves at home each in the other's country. We understand one another. We have the same ideals, draw inspiration from the same great literature, apply similar standards of value to the deeper things of life. In more humdrum matters, our customs and habits are essentially the same. We know how to do business together. We find that where we have common problems, we somehow can agree easily, as good neighbours do, on how to go about solving them. We never find it necessary to "walk out" on each other.

It was therefore with alacrity that I accepted the kind invitation of your President to come here today and to try to make some amends for what he considered to be a failure on the part of our public men to tell more of Canada's story to the people of this great metropolitan area who, as neighbours, suppliers, customers and investors have so large a stake in Canada's progress and Canada's destiny. This must be my excuse, if in what I say today I seem to cast aside any restraining influence of that modesty which I hope is a special Canadian virtue and talk to you solely about ourselves -- and that, too unblushingly in terms of pride in past achievement and confidence in the future.

Yours is a great city with an unsurpassed reputation for vigour and achievement. Youngest of the great American cities, you have in little more than a century shot up from empty prairie to fourth place amongst the cities of the world. When I think of the amazing strides which you have made in the past decade -- in industry and commerce, wealth and income -- I find it not inappropriate, perhaps indeed a little symptomatic, that you should have been the creator of the first atomic chain reaction. But this chain reaction growth and activity of yours may have left you little time to follow developments in my country -- or perhaps our tourist literature may have led you to believe that Canada was a country filled largely with speckled trout, wild deer and red-coated policemen. It may therefore surprise you to know that during this same decade Canada has also experienced a virtual transformation. Indeed, it is no exaggeration to say that few countries have shown as rapid a growth during that period.

First, as to size and numbers. As you know, it was just a little over a year ago that our territory and our population were augmented by one of those happenings which are altogether too rare in the history of the world, the decision of one community of people of its own free will to cast its lot with that of another free people. In the geographic sense, Newfoundland's union with Canada consummated the dream of the fathers of our confederation that the northern half of this continent should constitute one nation extending from sea to sea. To Canada's population it added nearly 350,000 resourceful people with a proud tradition. Then too, we have recently been following a more constructive policy of selective immigration which since the end of the war has brought us an additional 370,000 people, and during the decade as a whole, there has been a fairly substantial spurt in the natural increase of our population. As a result of all these factors, Canada's population at the middle of 1949 was 13,549,000, an increase of 19 per cent since 1940 and of about 155 per cent since 1900. To give you a basis of comparison, I understand that the corresponding percentages for the growth in Chicago's population during the same periods would be 10 per cent and 119 per cent. Our growth during the first 30 years following the founding of Canada as a nation was disappointingly slow and we are still small for a nation occupying so large an area -- but we now seem to be getting on our way.

Turning to the economic side, I can summarize the over-all situation for you by stating that the present picture in Canada is one of sustained prosperity. The volume of production is the highest in our history. External trade and total investment -- the two most dynamic factors in Canada's economy -- are at record levels. We are now ploughing back into the economy over a fifth of the gross national production. This is considerably higher than the current rate of investment in the United States. At the same time our people are enjoying a better standard of living than they ever have before. The labour force continues to grow; it now numbers over 5,000,000 men and women as compared with fewer than 1,800,000 at the beginning of the century. The numbers currently employed are at a peak level and while there are a good many more job-seekers than a year ago, employment conditions are generally good. The postwar inflation appears to have run its course. Wholesale prices have receded somewhat from their peak levels, although their decline has been less rapid than in the United States. The cost-of-living is only slightly higher than it was a year ago. I think, therefore, it is fair to say that the Canadian economy as a whole is today in a healthy, well-balanced and prosperous state -- and compares favourably with that of any other country in the world.

The real significance of our present position, it seems to me, can best be seen against the background of the remarkable economic growth of the past decade. The best single measure of a country's economic strength is the total volume of goods and services produced. In 1939 the gross national production of Canada was \$5½ billion. By 1949 this had reached \$15.9 billion. In the short period of ten years we have about tripled our output in money terms and almost doubled it in physical terms. While expansion occurred in every branch of our industrial structure, the most spectacular advance occurred in manufacturing. This has contributed to a significant diversification of our economic life and to a more balanced economy. The growth in manufacturing occurred not only in the well-established, pre-war industries such as agricultural implements, motor vehicles, and textiles, but also in industries which before the war were of relatively minor importance. To quote but one case, the aluminum

industry is now producing 360,000 tons of ingots as compared with 83,000 tons in 1939. We have in Canada today highly developed and efficient output of such complex industrial products as machine tools, aircraft and electrical equipment. We are now selling in competition with the most highly industrialized countries many products which we did not produce at all before the war.

Canada's external trade has about quadrupled in value and doubled in volume as compared with the pre-war years. Although we have much less than 1 per cent of the world's population, we are the third largest trading nation, ranking immediately after the United States and Great Britain. On a per capita basis, our external trade is roughly double that of Britain and four times that of the United States. Acting as one of the great "prime movers" in our economy, our exports now exceed \$3 billion and account for about a quarter of our total production of goods and services.

The total of private and public investment is now about four times as great in money terms and more than twice as great in real terms as before the war. Last year it amounted to \$3.4 billion; this year it is forecast at just under \$3.6 billion or about 22 per cent of gross national production. This percentage ratio is not only the highest in our history but is, I believe, the highest of any nation for which comparable statistics are available. I need not point out to this audience the significance of these capital expenditures in expanding our productive capacity and increasing our future productive efficiency.

Incidentally, if the figures which I have given above or may give later do not impress you as unduly large in absolute terms, I would suggest that you convert them into U.S. terms by multiplying them either by 11 which is about the ratio of our respective populations, or, what is more appropriate in most cases, by 16, the ratio of our respective national incomes. Thus, using the latter ratio, our current rate of investment activity applied to your conditions would involve a total capital expenditure in 1950 of \$57 billion.

Increased output and rising productivity have permitted substantial advances in our material welfare. Moreover, all sections of the population have benefited in what, I believe, has been a reasonably balanced and equitable manner. Total labour income, for instance, is now about three times as high as before the war and so is the income of our farmers. After making allowances for price increases and population growth, it is safe to say that the average Canadian today consumes goods and services on a scale about half as high again as he did before the war.

If you were to suggest that all these achievements could not just have happened by themselves, you would not be surprised to learn that, as Minister of Finance, I would be prepared to agree and to admit that the Government should be given at least some small share of the credit. In a free enterprise economy -- such as we have in Canada and as you have in your country -- Government, of course, is only one factor. We have been fortunate in Canada. Nature has endowed us with bountiful natural resources. Our business men and industrialists have shown a remarkable spirit of initiative and enterprise in making the most of their opportunities. Our labour force is energetic and industrious, quick to learn the complex skills required in a modern industrial community. Our farmers have been in the foreground in applying the most advanced methods of agricultural science. Given this combination of favourable factors, the primary task of the Canadian Government has been to promote the general conditions under which

the individual efforts of our people could best be brought into full play. I believe the Canadian Government has done a fairly good job in assuring a favourable environment, keeping our house in good order and, where necessary, providing constructive leadership.

Perhaps, I may illustrate by a few comments in regard to our fiscal and financial policies. In a modern state the governmental budget by virtue of its size alone, is bound to have an important influence on the entire economy. For this reason the government's spending and taxing activities must be based on more than purely financial considerations. We have in Canada tried to adjust our fiscal policy so as to promote the health expansion and development of our economy. As soon as we declared war in September 1939, we pledged ourselves to follow "as far as may be practicable a pay-as-you-go policy". Though the scale of our war effort was to increase beyond anything we had dreamed of, nevertheless we were reasonably successful in carrying out that pledge. In the seven fiscal years ending March 31, 1946, we paid for 57 per cent of our total expenditures out of taxation and other revenues, and most of what we had to borrow was raised from the Canadian public rather than by bank financing. In the first three fiscal years following the close of the war, we budgeted for substantial surpluses. We did so for two reasons. In the first place, the country was in the midst of an unprecedented postwar boom. The huge backlog of demand at home and abroad, pressing against tight supplies, was exerting a strong upward pressure on prices. We therefore tried to keep the brakes on inflationary tendencies by getting expenditures down and keeping revenues up. In the second place, it seemed good old-fashioned horse-sense to lay a little away during good times if we were to keep the fiscal apparatus in good shape for any emergency which might arise in the future. As a result of this policy, we have achieved budget surpluses in each of the postwar years -- \$373 million in 1946-47, \$676 million in 1947-48, \$595 million in 1948-49 and \$111 million in 1949-50. Stated in another way, we have been able to reduce our national debt in the last four years by almost \$1.8 billion or over 13 per cent.

Sound fiscal policy, however, is more than just a matter of budgeting for surpluses and reducing the national debt. By the beginning of 1949 it seemed to us that the postwar inflation had probably about reached its end -- indeed, there was some evidence, particularly the decline in economic activity in this country, that a new deflationary threat might be on the horizon. On economic grounds, therefore, it was no longer necessary deliberately to reduce purchasing power in the hands of the public. On the contrary, it appeared that the maintenance of high income and employment might require a fillip to consumer spending. Hence, in the budget brought down on March 22, 1949, we reduced taxes boldly, concentrating the reductions in such a way as best to stimulate consumption. Personal income tax exemptions were restored to the prewar level and a large number of wartime commodity taxes were eliminated entirely. In addition, a real start was made on the problem of eliminating the double taxation of business profits by giving to the individual shareholder a credit against his personal income tax equal to 10 per cent of his income from corporate dividends. Apart from the question of equity, our purpose in making this innovation in income taxation was to stimulate venture capital. Events since that time I believe have confirmed the basic soundness of our thinking and of the measures taken in the budget of last year. Despite conditions in other parts of the world on which we are so heavily dependent, economic activity in Canada was maintained on a generally rising level throughout 1949.

It will be noted, however, that the general philosophy which inspired the 1949 budget was not carried to an extreme. If the state of prices and production in Canada did not any longer require large budget surpluses, neither did they seem to justify deficits. Despite the significant tax cuts we made, we still budgeted for a modest surplus and as I have already indicated, the result for the year was a surplus of at least \$111 million. When on March 28 last, I brought down the budget for the fiscal year 1950-51 (which began on April 1), it seemed to me that under the conditions likely to prevail in the next twelve months, and having in mind the nature and conditions of the Canadian economy in particular, prudence required the continuance of the policy followed last year. We have therefore again budgeted for a modest surplus for the current fiscal year.

While Canadians are proud of the rapid growth we have experienced during the last decade, there are many, both in Canada and elsewhere, who believe that this is just the beginning of a new dynamic period in Canada's development. These observers point to a number of recent discoveries of vast new resources -- oil in Alberta; high-grade iron ore at Steep Rock in Ontario, and much larger deposits in northern Quebec and Labrador; titaniferous ore in northern Quebec; uranium and base metals in the Northwest; -- and they suggest that these may be merely the forerunners of many other similar discoveries which are likely to result from the application of the seismograph, the magnetometer, and other modern gadgets, to the exploration of our vast hinterland.

Recent progress in the Alberta oilfields would appear to confirm the most optimistic view of the probable magnitude of oil reserves in this region. Since the discovery of the Leduc field in November 1947, our estimated proven reserves have increased more than fifteen times. Last year they were more than doubled by the finding of several new major and minor fields. The current rate of exploratory activity, as measured by the number of crews at work, is second only to that of Texas. So far the efforts of the industry to find new oil fields has covered only a small fraction of Canada's 655,000 square miles of prospective oil territory. According to the experts, we have a good chance of achieving national petroleum self-sufficiency within a few years. That, of course, has very important implications for our international balance of payments, as the importation of petroleum products last year cost us \$275 million. Even now the Alberta oil fields, which are prorated down to little better than half their optimum output, are meeting the requirements of the Prairie Provinces and saving us about \$90 million a year in foreign exchange. The new pipeline from Edmonton to Lake Superior which will bring Alberta oil to Ontario refineries, will be completed by the spring of 1951. It seems clear, however, that the most economic use of western oil will require that some of it be shipped to neighbouring areas in the United States, while the large oil-using centres in Eastern Canada continue to obtain the bulk of their supplies in the United States. It would, I think, be unfortunate if our two countries did anything to prevent this reciprocal flow of oil back and forth across the common boundary line and the more efficient utilization of North America's economic resources which it makes possible.

The Steep Rock iron ore project has been exporting high-grade ore to the United States for some years and plans are now under way to raise output of 3 million tons by 1952. The Ungava-Labrador project offers much greater possibilities. Proven reserves in excess of 350 million tons are considered to be only a fraction of what the field will eventually yield. Six American

steel companies have an option to participate in the development and financing of this \$200 million project. Tentative plans call for a railway from the ore body to the St. Lawrence River and the minimum scale of the enterprise involves the shipment of 10 million tons of ore annually. The project, however, will not reach its maximum utilization until the St. Lawrence Seaway has been completed. At that time the plans call for an annual movement of 20 million tons of iron ore through the waterway to the great steel-producing centres on the Great Lakes and in the mid-west. For the Chicago industrial area, which I believe now leads all other areas in the production of steel, the early completion of the St. Lawrence Seaway should be a major interest. We have heard a great deal about the Seaway in the context of North American defence. While its strategic importance has long been recognized in both countries, I believe it is no less essential if we are to achieve a more effective use of North American natural resources for peacetime needs. I hope that the necessary legislative authority will soon be forthcoming in order to permit an early start to be made on this most important, joint United States-Canada project.

From what I have said I think you will agree that Canada's economic position is sound and her future promising. At the same time, I do not wish to leave the impression that we are entirely free of problems. To the extent that Canadian prosperity depends on what we do on the domestic front, I do not envisage any great difficulties. Canada, however, is highly dependent on external trade and for that reason we are affected in a vital way by conditions in the rest of the world, especially in our major export markets. If we have our share of problems and uncertainties, they arise in the main from the unbalanced conditions of world trade and the persistence of the postwar dollar shortage.

Since the end of the war the United States and Canada have been close partners in the great effort to restore a multilateral trading world on as broad a basis as possible. We tackled the problem on a number of fronts. We co-operated in setting up the International Monetary Fund and the International Bank. We joined many other countries in making a broad attack on excessive trade barriers through the Geneva and Ancey Agreements and the International Trade Organization. We knew then that international organizations, no matter how excellent, could not in themselves do the entire job in the circumstances that prevailed, so we went to work, each in our own way, on the more immediate task of European reconstruction. You made a \$3 3/4 billion loan to Britain and followed this loan up with that magnificent and unselfish act of statesmanship, the Marshall Plan, which has meant so much to the economic recovery and political security of the West European democracies. We, in our turn, made a loan of \$1 1/2 billion to Britain on the same terms and conditions as yours and then we embarked on a very extensive programme of export credits to other countries whose economies had been seriously disrupted by the war. All in all, our "foreign aid" contribution in loans and gifts since the end of the war has aggregated just over \$2 billion. On a relative basis that aggregate still compares very favourably with the total foreign aid made available by this country, even including assistance given and to be given under the Marshall Plan.

The extensive financing which has been done by North America has accomplished a great deal in the last few years. Today the countries of western Europe have largely repaired the widespread damage caused by the war and have in fact surpassed their prewar production and trade. More important, the

encroachment of Communism which a short while ago threatened to engulf them, has been successfully halted. If the trading world in which we find ourselves today is still a far cry from the bold objectives at which we aimed, I believe that is a measure of the scope and intensity of postwar dislocation rather than an indication of the failure of our policies. It is only recently that we have become fully aware of the magnitude of the changes that have taken place in the world economy and of the profound shift in the balance of economic power from Europe to North America. I believe that if we measure the progress achieved against the real problems that confronted us, aggravated as they have been by the division of the world into two camps engaged in fighting a cold war, we should have cause for pride and confidence rather than for disappointment.

Much, however, remains to be done and we shall need all the resources of patience and wisdom and statesmanship that we can muster. Until the serious lack of balance in world trade is overcome, we cannot expect to get rid of the host of discriminatory restrictions and devices which today impede a freer flow of world trade. A contribution to a better balance must be made from both sides -- from the side of the deficit or debtor countries as well as from the side of the surplus or creditor countries. Thus, the countries of Western Europe will have to produce and offer for sale to dollar markets more goods of the right kind at prices which are competitive. At the same time we in North America must be prepared to take more imports - unless, of course, we are prepared to lend abroad the amount of our export surpluses. Tariffs must be scaled down, customs procedures must be simplified and made more flexible and more reasonable. We must recognize clearly and tell our people that high tariffs and other protective devices are inconsistent with the position of North America in world trade today. It is my firm conviction that there is no other solution to the problem of how to restore a sound and sane trading world.

While I have been talking about North America as a whole, the important differences in the financial and trading position of Canada as compared with the United States should not be overlooked. We both export a good deal more to overseas countries than we import from them. Canada, however, runs a large trade deficit with the United States -- almost equal to its surplus with all other countries. In fact, at the present time our overall trade is just about in balance -- certainly we have no very large export surplus. The United States, on the other hand, has a very large trade surplus with the world as a whole and for this reason is in a position to increase imports by large amounts from all sources. While it is in our interest, as it is in yours, to expand imports from overseas countries, in the case of Canada we must at the same time try to bring our own trading position into better balance by selling more goods in the United States and other dollar markets.

We have had considerable success in narrowing the trade gap with you in the last few years -- but more remains to be done. We shall endeavour to achieve a better balance by increasing our exports rather than by restricting imports. That has been our policy. But we cannot do it without your help. We have been greatly encouraged by the splendid leadership which your country has given to the great task of removing barriers to world trade. I am confident that the goodwill and co-operation which contributed so much to our past relations will make it possible to meet this problem, as we have so many others, in a manner which will enhance the welfare of both countries.