



CANADA

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## BALANCING CANADA'S TRADE BUDGET

"Canadians tend to take for granted the importance of trade in their lives", the Minister of Trade and Commerce, Mr. Mitchell Sharp, told the Fifth Annual Meeting of the International Claim Association in Montreal on September 9.

While the proportion of the U.S. national product represented by exports was only about five per cent, Mr. Sharp pointed out, the Canadian proportion was 20 per cent. The economy of Canada, except for the "industrial heartland" (the Great Lakes and the St. Lawrence valley), was based on industries producing largely for export. In such a country as Canada a far higher level of production was required than the domestic market alone would justify. "For these reasons", he observed, "foreign trade has a deeper and more personal significance for most Canadians than for Americans".

### IMBALANCE OF PAYMENTS

The Minister turned next to the Canadian trade deficit. This imbalance, he explained, was not, like the U.S. deficit, caused by the "outflow of funds reflected in the loss of gold" but by the failure of Canada's earnings abroad to keep pace with its foreign spending. The "external-earnings gap" had come about, however, less from overspending than from under-use of the country's productive resources. The solution posed lay, therefore, Mr. Sharp suggested, "in the direction of expansion rather than containment". He went on to describe as follows the kind of expansion he had in mind:

"... Canada's present run of current-account deficits began in the mid Fifties — when the rapid pace of development then under way brought about an unusually sharp upsurge in imports. This adverse balance rose to an all-time high of more than 1½ billion in 1959 and it was in the neighbourhood of \$850 million in 1962. Following several years of adverse balances, Canada's merchandise-trade account with the world as a whole showed surpluses in 1961 and 1962 and there is evidence of further significant, even striking, improvement this year.

"The hard core of the problem, therefore, lies in the area of non-merchandise transactions, where the position has shifted from a near balance in the late 1940's to a deficit now running at about \$1 billion. Of the major areas encompassed in the non-merchandise account, tourism is the only one which appears to offer scope for any early and significant improvement. The deficit on tourism has already declined from its recent high and the achievement of no worse — and I hope better — than an even balance appears as a reasonable prospect for the years ahead. On the other hand, net payments for interest and dividends and for business services, which together account for four-fifths of the \$1-billion non-merchandise deficit, give every indication of further increases and are not, in fact, susceptible to reduction except in the long run. It seems evident, therefore, that for some considerable time Canada's non-merchandise deficit, even in the most favourable circumstances, is not apt to fall much below the \$1-billion mark.

(Over)

"This means simply then that any substantial improvement in our current position will have to come largely in the area of merchandise trade. In fact, for Canada fully to pay her way in the world without running further into debt, a commodity-trade surplus in the neighbourhood of \$1 billion each year would seem to be necessary.

"A formidable task by any standard of measure, but, over time, not beyond our capabilities. Let me try to indicate the sort of changes and developments that would be required.

#### DEFICIT OUTSTRIPS RESOURCE DEVELOPMENT

"Because of the limited size of the domestic market, the economic exploitation of Canada's ample natural resources has involved the production of resource products far in excess of domestic needs. These resource products have always comprised the bulk of Canada's exports and even today account for five-sixths of our total sales abroad. Many of these items are sold in highly processed form and the actual extraction of particular products has in many instances been dwarfed by the subsequent processing operations, which now comprise many of Canada's largest and more prosperous industries. Moreover, the range of Canada's resource-based exports has steadily broadened. A considerable proportion of Canada's present export total represents items such as iron ore, petroleum, natural gas and uranium, which have come into prominence only during the last 10 or 15 years. It was development of these major new lines of production, along with large-scale expansion throughout a broad range of established resource industries, that provided the spark for Canada's post-war resource boom. Virtually all of this new capacity represented potential production for export or of an import replacing character. Yet, despite this extensive support to Canada's foreign earnings position, it has still not been adequate to meet the tremendous growth in foreign payments that has accompanied two decades of prosperity. Hence, the anomalous situation of a record foreign-earnings deficit following upon one of Canada's greatest periods of resource development.

#### WEAKNESS OF SECONDARY MANUFACTURING LINES

"To a large degree this excessive rise in our foreign payments has been attributable to Canada's mushrooming demands for manufactured products, coupled with continued heavy reliance upon foreign sources of supply. Canada's industrial makeup includes a quite broad and diversified range of secondary manufacturing lines. However, with certain notable exceptions, these industries are not strongly competitive internationally and have confined their sales largely to the domestic market. Even today from 90 to 95 per cent of secondary manufacturing output is sold domestically. Moreover, many of these industries rely extensively upon imports of parts, as well as finished products, to supplement their own production lines.

"It is this unevenness in Canada's industrial structure that seems to underlie the paradoxical situation surrounding our external balance. For ex-

ample, while dollar receipts from our largest export item, newsprint, have increased severalfold in recent decades to a level now exceeding \$½ billion, our trade position in automotive products has shifted from a near balance in certain inter-war years to a deficit at present running well in excess of \$½ billion annually. Or again, while proceeds from grain sales have risen considerably over the postwar period, our trade position on farm equipment, including tractors, has deteriorated by about \$100 million. Even if a better performance in standardized items could be realized, Canada is still faced with ever mounting import requirements of specialized products. The increasingly rapid pace of technological advance and the growing complexity of many types of equipment tends to increase Canada's already heavy dependence upon imports of machinery and equipment, particularly of the more specialized kinds.

"In a world where sheer size of operation and breadth of technical knowledge is becoming more and more important, Canadian producers have to work hard even to hold their own.

#### INDUSTRIAL STRUCTURE MUST EXPAND

"What does it all mean? Simply this, that world demand for Canadian food products and industrial materials has not kept pace with our growing requirements for many types of manufactured goods. It seems clear, therefore, that any permanent solution to Canada's foreign balance-of-payments problems must lie in the direction of a further substantial broadening and filling out of Canada's industrial structure on a competitive basis. New areas of economic production must be sought out wherever markets can be developed, particularly in secondary manufacturing.

"Growth is a continuous process and the development of a strong and viable framework of manufacturing industries in Canada will not be achieved by one-shot efforts. It is largely for this reason that the new Department of Industry has been established to help foster industrial growth in Canada. The energies of the new department will serve to assist, not to replace, the efforts now being put forward by private industry. In today's complex world, a specialized government agency of this kind, with detailed knowledge of particular industries, has an important role to play in helping to clear the way to better all-round economic performance. By concerning itself only with manufacturing, the new department will give its full attention to this one area that has assumed such crucial importance in the present phase of Canada's economic development.

#### LINEAR TARIFF CUTS NO SOLUTION

"For the same reason, Canada has given strong support to the Kennedy trade proposals and is prepared to participate actively in the coming negotiations. In charting the course to be taken in these negotiations, Canadians have had to take account of the fact that the programme of linear tariff reductions put forward by the United States would provide much less by way of improved sales opportunities in world markets for industrial materials than for manufactured products. Bearing in mind that manufactured products at present make up about two-thirds of Canada's

### A NATIONAL PENSION PLAN

The following statement was issued on September 9 by Prime Minister Pearson:

The purpose of the Canada Pension Plan is to make it possible for all Canadians to retire in security and with dignity.

Since the plan was introduced to the House of Commons, another measure directed to the partial achievement of the same objective has been proposed. The Legislature of the Province of Quebec has passed a resolution directed to establishing a public and universal pension fund in that province.

The Federal Government believes that it is to the advantage of all Canadians to have a basic standard of contributory pensions related to incomes up to an average level. Such pensions ought to be portable throughout Canada.

The Canada Pension Plan can provide these advantages, and provide them soon.

#### CONTENT MORE IMPORTANT THAN FORM

It is, however, the substance of this social advance for the people of Canada that is important, not the form in which it is achieved. Each province has the right under the constitution to legislate about pensions within the province. The Federal Government, while it also has the right to legislate in this field has no intention of entering into a competition with the provincial governments in a matter of common jurisdiction. Such a competition could lead to excessive costs for the financing of pension schemes. It would be bad for the people of the province or provinces affected. It would be bad for Canada.

The Federal Government therefore seeks ways of ensuring that adequate pensions are made available to all Canadians, not by competition between governments but through their co-operation in this common field of shared jurisdiction.

Since the proposed Quebec pension plan would apply comprehensively in that province, it is not an obstacle to the Federal Government's national objective of ensuring pension coverage for everyone. The Federal Government believes that the Canada plan and the Quebec plan could contain provisions enabling anyone, whatever his or her occupation, to move between the two plans without loss of pension coverage.

If this expectation is confirmed, the Federal Government intends to propose in its legislation that contributions under the Canada Pension Plan will not

normally be required of people whose terms of employment come within the jurisdiction of a province which has a universally available pension plan providing comparable benefits.

It is more than ever important, however, that the universal federal pension of \$65 a month should be increased to \$75.

That the increase is required is undisputed. But to urge it is irresponsible unless there is a recognition that it must be paid for. For this reason, the Government's proposals have linked the additional \$10 benefit to the payment of contributions under the Canada Pension Plan.

#### AN IMMEDIATE PENSION RAISE

However, if such contributions are not collected in all provinces, it clearly would be unfair to the people of other provinces to finance the additional payment to all older Canadians out of reduced contributions. In view of this possibility, the Federal Government will propose to Parliament that the additional \$10 be paid out of the Old Age Security Fund, as the \$65 already is. At the same time, Parliament will be asked to approve the raising of the additional revenues required by the fund for this purpose.

A measure to amend the Old Age Security Act will be introduced soon after the re-assembly of Parliament. The Government hopes that this measure can be passed quickly, so that the increased old-age pension can come into effect from October onwards.

Apart from the increase of \$10 in the basic pension, the Canada Pension Plan relates benefits to contributions. The other financial features of the plan will, therefore, not be appreciably affected by the absence of both contributions and benefits in a province which is instead operating a universal plan for itself. It must, however, be noted that, if a number of provinces were to establish their own plans, the administrative problems involved in providing portability between provincial plans and with the Canada Pension Plan would be much increased.

The Federal Government will proceed with the Canada Pension Plan in the belief, which it hopes the present conference will confirm, that provincial governments share its objectives. Those objectives are that better pensions be provided as quickly as possible, by methods which are sound and responsible and which ensure that the benefits are available to all Canadians, including those who move from one province to another.

#### IDB HEAD IN OTTAWA

Dr. Felipe Herrera, President of the Inter-American Development Bank (IDB), arrived in Ottawa on September 9 for discussions with the Prime Minister, the Secretary of State for External Affairs, the Minister of Finance, and senior government officials. During his stay in Canada, Dr. Herrera also visited Toronto and Montreal, where he met with officials of Canadian chartered banks and insurance companies.

The main purpose of Dr. Herrera's visit was to acquaint the Canadian Government and members of the financial and business community with the aims, operations and achievements of the IDB. Dr. Herrera had previously made a similar visit to certain Western European countries. He was accompanied while in Canada by Mr. R.B. Menapace, Financial Adviser of the IDB, and Mr. Carlos A. Paz, Treasurer of the Bank.

### AID TO UNDER-DEVELOPED AREAS

Mr. C.M. Drury, Canada's Minister of Industry, and Mr. A.J. MacEachen, the Minister of Labour, recently announced a list of 35 areas across Canada that had qualified for special measures of federal assistance for economic or industrial development because of high levels of unemployment and slow rates of growth. Most of the localities designated as eligible for assistance under the previous Special Capital-Cost Allowance Programme are included in the new list and a number of new areas have been added.

In announcing the areas, the Ministers referred to the formation of the Area Development Agency in the Department of Industry to assist in the economic development of designated areas. The Agency will work in close co-operation with other federal agencies, provincial and municipal authorities, and with commercial interests in relation to such areas.

### STIMULATING EMPLOYMENT

Several programmes have already been announced that are designed to stimulate employment. These include important new tax concessions to manufacturing and processing enterprises locating in designated areas, as well as speed-up in government construction projects for the coming winter and higher incentive payments for projects approved under the Municipal Winter Works Incentive Programme.

Local-office areas of the National Employment Service have been used for the purpose of examining all areas of the country. These consist of industrial and commercial centres and hinterlands of varying size and population density. They normally represent distinct labour-market areas.

A sufficient number of years has been used to take account of chronic conditions of high unemployment, as well as to measure economic-growth patterns reflected by employment figures. In addition, more recent adverse employment conditions have been taken into account.

### JULY STRIKES AND LOCKOUTS

Although the number of work stoppages in July showed a slight decrease from the previous month, the number of workers involved and the number of man-days lost showed an increase over the June figures, according to a preliminary summary of strikes and lockouts released recently by the Minister of Labour.

There were 61 work stoppages in the month, involving 17,101 workers, with a time loss of 181,030 man-days. In June there were 63 work stoppages, involving 7,302 workers and a time loss of 78,400 man-days.

More than 68 per cent of the time loss was accounted for by disputes involving fishermen on the British Columbia coast and construction workers in Toronto. Four of the stoppages were in industries under federal jurisdiction. Of the others, 39 were in Ontario, eight in Quebec, four in British Columbia and two each in Newfoundland, Saskatchewan and Alberta.

Twenty-two of the July stoppages involved 100 or more workers. Of these, 16 had ended by the end of the month.

A breakdown by industry of the month's stoppages shows 27 in manufacturing, 18 in construction, six in transportation and utilities, five in trade, four in mines and one in service.

Based on the number of non-agricultural wage and salary workers in Canada, the number of man-days lost represented 0.15 per cent of the estimated working time. In June, the percentage was 0.07 per cent. The corresponding figure for July 1962 was 0.12 per cent.

### CANADA'S UN DELEGATES

Prime Minister Pearson recently announced the composition of the Canadian Delegation to the eighteenth session of the United Nations General Assembly, which opens in New York on September 17. The following have been appointed: Mr. Paul Martin, Secretary of State for External Affairs, chairman of the Delegation; Dr. John B. Stewart, Parliamentary Secretary to the Secretary of State for External Affairs, vice-chairman of the Delegation; Mr. Milton F. Gregg, Member of the Privy Council of Canada; Mrs. Margaret Konantz, Member of Parliament; Mr. Paul Tremblay, Permanent Representative of Canada to the United Nations; Senator T. D'Arcy Leonard; Mr. Leo Cadieux, Member of Parliament; Mr. George Nixon, Member of Parliament; Mr. James E. Brown, Member of Parliament; Mr. K. Kaplansky, Canadian Labour Congress; Mr. J.L.E. Couillard, Canadian Ambassador to Norway and Iceland; Lieutenant-General E.L.M. Burns, Canadian Government Adviser on Disarmament, Special Adviser to the Delegation.

The Prime Minister is expected to attend the opening ceremonies of the session and to address the General Assembly. During his stay in New York he will be chairman of the Delegation.

### SECURITY TRANSACTIONS

The net capital movement into Canada from transactions in bonds and stocks during the second quarter of 1963 amounted to \$212 million. This represented a substantial reduction from the very high level of \$329 million established in the first quarter of the year. The second-quarter inflow, large by normal standards, could be more than accounted for by some \$232 million net received from deliveries of bonds, the sale of which had been arranged earlier. Unusually large retirements of foreign-held Canadian securities contributed to this result.

More than two thirds of the proceeds of new issues in the quarter, which amounted to \$390 million, arose from corporate borrowing, with natural-gas pipe lines, other utilities, petroleum and finance companies all contributing in important measure. At mid-year, the total of bonds sold to residents of the United States but undelivered was \$189 million. Retirements of foreign-held Canadian securities included major amounts covering stocks of utility companies acquired by the Quebec Hydro-Electric Commission, as well as government and corporate bonds.

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## DR. ROLLER JOINS FORESTRY

A man who led 196 forestry students from Hungary to a new life in Canada after his country's 1956 uprising against the Soviets has joined the federal Department of Forestry as a research scientist in Winnipeg. He is Dr. K.J. Roller, 50, former Dean of the Faculty of Forestry at Sopron, Hungary who will be engaged in tree improvement studies for the federal Department of Forestry in Manitoba and Saskatchewan. After escaping to Austria, he came to Canada with his students in 1956 on the invitation of the Canadian Government.

### NEW HOME IN B.C.

Dr. Roller established his school in Vancouver, where it was affiliated with the University of British Columbia. Of the original 196 students, 147 graduated in forestry during the period 1958 to 1961. Dr. Roller remained at the University of British Columbia, where he conducted research on the characteristics of the leaves and cones of the Alpine fir, until his recent appointment to the federal service.

Seven Hungarian professors and graduates of Dr. Roller's school at the University of British Columbia are employed by the Department of Forestry at various establishments across Canada. The organization employing the greatest number of the graduates - 70 per cent - is the British Columbia Forest Service. Most of the others are also working in Forestry in government and private organizations.

More than 30 of the students took post-graduate courses and three will obtain doctorates and teach at universities in British Columbia and in the United States. Only one has returned to Europe.

### CURRICULUM VITAE

A native of Borsodnadasd, Hungary, Dr. Roller graduated from Sopron as a forest engineer in 1936 and worked in silviculture with the Forest Service of Hungary until 1949, when he became Director of the New Forestry Research Institute in Budapest. He joined the faculty at Sopron in 1952 as professor of seeding and planting. The basic science of the lectures was forest genetics upon which were built the methods of seeding and planting.

After three years of research work, Dr. Roller obtained a scientific degree in the agricultural sciences from the Academy of Sciences in Budapest in 1953. He was elected dean of Sopron in 1954.

Dr. Roller has published and delivered some 80 papers on tree breeding, seeding and planting, shelterbelt planting, and silviculture methods for farm forests. He wrote a book on seeding and planting, including the subjects of tree improvement, nursery management, seed testing methods, and classification of land for new plantations. The book was printed in 1956 but never released because of Dr. Roller's exodus from Hungary.

## DUDER TO ICAO

The Department of External Affairs recently announced the appointment of Mr. R. Duder to succeed Mr. J.R.F. Main as Canadian representative to the International Civil Air Organization. Mr. Duder is expected to take up his new duties in December.

Mr. Duder was born in St. Johns, Newfoundland. Educated at McGill University and at Oxford, where he was a Rhodes Scholar, he continued his studies at Dijon University and Harvard University before joining the staff of Memorial University College in St. Johns. Mr. Duder joined the Department of External Affairs in October 1950, and has served as First Secretary at the Canadian Embassy in Belgrade (1953-54), Adviser to the Canadian Commissioner on the International Supervisory Commission for Cambodia (1954-55), and Counsellor at the Canadian Embassy in Tokyo (1957-60). From 1955 to 1957 Mr. Duder was a member of the Directing Staff of the National Defence College in Kingston.

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## WHEAT FOR U.S.S.R.

Mr. Mitchell Sharp, Minister of Trade and Commerce, recently announced that the Canadian Wheat Board had made a sale of wheat to the Union of Soviet Socialist Republics and would make the following announcement from its head office in Winnipeg:

"The Canadian Wheat Board has negotiated a contract for the sale of approximately 300,000 long tons of wheat for shipment to the Union of Soviet Socialist Republics. This sale, totalling slightly over 11 million bushels and valued at approximately \$22 million, is for shipment from St. Lawrence and Pacific Coast ports during the period September through November 1963.

"The last purchase of Canadian wheat by the U.S.S.R. was in the 1960-61 crop year, when 7.5 million bushels were purchased. As was the case in previous sales, the current sale to the U.S.S.R. is on a cash basis."

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## JUNE LABOUR INCOME

Paid workers in Canada in June received an estimated \$1,857 million in salaries and wages and supplementary labour income, according to advance figures that will be contained in the June issue of the report "Estimates of Labour Income", issued by the Dominion Bureau of Statistics. The June estimate was up 2.7 per cent from the May total of \$1,808 million and 5.9 per cent from last year's June total of \$1,753 million. Labour income in the January-June period reached an estimated \$10,525 million, higher by 6.5 per cent than 1962's first-half total of \$9,887 million.

BALANCING CANADA'S TRADE BUDGET

(Continued from P. 2)

imports but only one-sixth of our exports, acceptance of the linear approach by us would provide much more scope for the expansion of sales of manufactured products in Canada than for the sale of Canadian products abroad. Such a course of action would obviously worsen rather than alleviate Canada's already serious external payments problem. We are, however, very much aware of the contribution that better access to foreign markets would make toward the sound development of secondary manufacturing in Canada. We are ready to pay full value for such benefits and accordingly have adopted an approach based upon the principle of giving concessions equivalent in value to the benefits received.

"These efforts by Canada to achieve balance in her international accounts and to reduce unemployment will be of considerable interest to the United States, since we are at once the largest single customer of the United States and its largest single supplier.

CANADA - U.S. TRADE

"It is relevant to observe, also, that all of Canada's current-account deficit, and more, is incurred in our transactions with the United States. In 1962, Canada's deficit with the United States amounted to \$1.1 billion made up of approximately \$500 million on commodity trade and \$600 million on non-merchandise account. In striving to reduce the overall imbalance in our current account, our policy is to seek out new markets wherever they can be found. It would not be realistic, however, to expect to bring our accounts into balance only by increasing our existing surpluses with major overseas markets. It is inevitable that any substantial improvement in our external-balance position will involve a reduction in our heavy adverse balance with the United States. In other words, Canadian producers must enlarge the disproportionately small share they now have of the North American market.

"It is our business to learn to be more competitive in the North American market. All that we expect from the United States is support for the principles of free enterprise and competitions, i.e. fewer

artificial obstacles to trade. In this regard it may be necessary to seek new ways of assuring that Canadian subsidiaries of United States parent companies have not only the freedom but also the incentive to maximize their sales both in the United States and other foreign markets as well as in Canada.

"As I have said, Canada runs a big deficit in its current account with the United States. This has been financed partly, but not wholly, by imports of capital from the United States. Thus Canada has not contributed to the United States balance-of-payments problem. Indeed we have contributed to its alleviation.

"Nor will a reduction in Canada's current deficit with the United States necessarily accentuate the United States balance-of-payments problem. To the extent that a smaller deficit on Canada's current balance-of-payments with the United States is accompanied by a smaller movement of capital funds into Canada, the United States will suffer no net loss of dollars.

"It will be clear from what I have said that I regard the present state of imbalance in our external accounts to lie very close to the core of the broader problem of economic development. Utilization of the unused and efficient domestic resources represented by this deficit would at one and the same time alleviate unemployment, raise incomes and thereby strengthen our internal finances, and by adding to private savings would permit greater reliance upon domestic as opposed to foreign sources of capital funds. So to utilize these resources, however, requires an all-round improvement in our economic performance, particularly in areas where we compete with foreign products.

"I have indicated that a trade surplus of about \$1 billion would be required to achieve balance on current account and that this may take time. There is, of course, nothing sacrosanct about an exactly even balance on current account. In circumstances of accelerated economic expansion accompanied by relatively full employment and high capital outlays, some continuing reliance on foreign resources would probably be justified. On the other hand, the eventual realization of a favourable balance on current account provides the only course to reduced international indebtedness and financial maturity as a national, which should over the years be our aim."

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JUNE LABOUR INCOME

in paid workers in Canada in June received an estimated \$1,857 million in salaries and wages and supplementary labour income according to advances figures that will be contained in the June issue of the report "Estimates of Labour Income", issued by the Dominion Bureau of Statistics. The June estimate was 0.2 per cent from the May total of \$1,808 million and 0.3 per cent from last year's June total of \$1,753 million. About income in the January-June period reached an estimated \$10,522 million, higher by 0.5 per cent than 1962's first-half total of \$10,422 million.

Dr. Koller's... After three years of research work, Dr. Koller obtained a scientific degree in the agricultural sciences from the Academy of Sciences in Budapest in 1923. He was elected dean of Sopron in 1924. Dr. Koller has published and delivered some 50 papers on tree breeding, seedling and planting, shelterbelt planning, and silviculture methods for farm forests. He wrote a book on seedling and plant management, including the subjects of tree improvement and silviculture management, and testing methods and classification of land for new plantations. The book was printed in 1926 but never released because of Dr. Koller's exile from Hungary.