

No. 55/17 CURRENT ECONOMIC TRENDS IN CANADA

An address by the Minister of Finance, Mr. Walter Harris, to the Canadian Club, New York, November 2, 1955.

To an audience made up almost entirely of former Canadians and persons who have more or less direct interests in Canada and Canadian affairs, it is natural, indeed almost inevitable, that I should talk about current economic developments and trends in Canada. It is also a convenient time to speak on this subject because we have just passed the halfway mark in our fiscal year and this is a natural point from which to look backward and forward to see to what extent the views we held last April seem to require re-appraisal.

The principal economic event of the past two years has been the recession of 1953-54 and the extraordinarily rapid recovery during the past twelve months. In Canada, we, like the United States, experienced this recession, but with some interesting differences. Most of you will recall that Canada almost wholly escaped the short and sharp recession which the United States went through in 1949. In that year, despite an almost 10 per cent dip in your principal economic indicators, all that we experienced was a moderate slowing down in the rate of our expansion.

In 1953-54 we were not quite so fortunate. 1949 had found us at the beginning, or in the midst of a number of major investment projects -- oil development in Alberta, Kitimat on the Pacific Coast, and Labrador Iron Ore far up in the northeast. 1953-54 caught us at a point where oil development and expansion had levelled off (though still running at a very high level); the first major phases of Kitimat and Labrador Iron Ore had been completed and the two major oil pipe lines running east and west from Alberta had also been completed. The next project of major expansion, (St. Lawrence Seaway) was not quite ready to go ahead. We were, so to speak, caught in a pause in our expansion and it was inevitable that the decline in business activity in the United States should be reflected in Canada.

The 1953-55 cycle of decline and recovery in Canada did not exactly parallel yours. We were later both in the downturn and in the upturn. In your country business activity started to slow down in mid-1953, while our downturn was not clearly evident until late in 1953. Your low point came in the first half of 1954 and rapid recovery began in the fourth quarter. Our low point came toward the end of 1954 and recovery did not begin to pick up rapidly until well into the spring of this year. In other words, we lagged four to six months behind you both on the downturn and the upturn.

On the other hand, the magnitude of the recession was somewhat less in Canada than in the United States. Your general index of production fell about 10 per cent. Ours on a comparable basis dropped about 7 per cent. Our rate of recovery, though it started later, has already caught up with

yours, and we are now about 13 per cent above the recession lows and 7 per cent above the 1953 high points. I believe your current figures are 3, or 4 per cent above your previous high.

This is not the occasion to explore in detail the bases of our great resilience. Two factors, however, can be mentioned: one, that we are going through a stage when the general trend of our rate of growth and expansion is somewhat greater than yours; another, that export trade overseas and especially with Europe plays a much larger role in our economy than in yours. And Europe, to the surprise of many people, has been almost completely unaffected by the North American recession.

Perhaps I might interject in passing that the divergence of recent economic trends in Europe and America may, as a useful by-product, contribute to somewhat more harmonious discussions in international economics. It had become the fashion to blame many, if not most, of the economic ills of the world on the alleged instability of the American economy. From 1949 to 1953 we heard a great deal about the grave effects on the rest of the world of even a 2 or 3 per cent decline in the economic activity in the United States. "If America sneezed," we were told, "Europe caught pneumonia."

We in Canada, like many of our friends in Europe, are not likely to forego our right to criticize or disagree with particular aspects of United States economic policies. But perhaps it is not a bad thing that neither we in Canada nor our friends in Europe can now so easily blame the instability of the American economy for all the world's economic ills.

Government policy in Canada met the recession in a variety of ways. Our policies, on the whole, were neither novel nor dramatic. I have even heard them criticized as being orthodox and dull.

We followed an easy money policy. Our 3-month Treasury Bill rate, which had been close to 2 per cent at the peak of 1953, dropped below 1 per cent in the first quarter of 1955. Five-year money fell from over $3\frac{1}{2}$ per cent to below $2\frac{1}{2}$ per cent and long-term rates from nearly 4 per cent to about $3\frac{1}{4}$ per cent. With the rapid acceleration of activity during the past six months, we have applied the monetary brakes to the extent that seemed desirable and short-term funds are now back just over the 2 per cent level.

Fiscal operations have also played their part. After 8 successive years of budgetary surpluses, we ran a deficit in 1954. It was not a large deficit, about \$150,000,000 or $3\frac{1}{2}$ per cent of our total expenditures. We, nevertheless, reduced some of our tax rates moderately for 1955. The tax structure we recommended to Parliament early this year was one which was designed to produce a balanced budget in a full year at high levels of activity. We had to prepare and deliver the budget at a time when evidence of accelerating recovery was not yet clear. We produced what I regarded as a conservatively optimistic and sensible budget. I forecast a deficit on this year's operations of about \$160 million. Events are turning out rather better than I expected and it now appears probable that the actual deficit for this fiscal year will be at least one-third less than I forecast.

On the expenditure side of the budget we stepped up moderately the scale of government construction in 1954, and again for 1955. We also introduced new housing legislation with a system of insured mortgages open to our chartered banks as well as to other lending institutions. As a result, residential construction, instead of declining with general business activity, actually increased, and quite sharply. At the low point of the recession, new housing starts were running about 25 to 30 per cent higher than in the same period of 1953.

In Canada we have, like you, a free economy and I would not want to give all the credit to government policy in minimizing the effects of the recession -- other factors and persons played their part. I would not wish to say that our measures and timing were always perfect, but I think I can fairly say that our governmental policies during this period were sensible and moved in the right directions.

Our recovery from the pause of 1953-54 has been very rapid, but appears to be soundly based. Employment is expanding to new high levels. In the winter of 1954-55, when seasonal unemployment was at its peak, its level was such as to cause real concern. However, by May, the pick-up in construction brought about a rapid decline in the number of people without jobs and seeking work, and this improvement continued and broadened throughout the succeeding months. In the past three months the number of persons without jobs and seeking work has been less than 2½ per cent of the total civilian labour force.

Employment opportunities have grown continually faster in 1955 than the labour force. Our labour force during the past year increased by 170,000, or about 3 per cent, but the number employed is up more than 200,000, or nearly 4 per cent.

This large decline in the number of unemployed in a period of greater than normal growth in the labour force is evidence of the exceptionally high rate of activity in Canada this year.

Investment, which has been one of the main driving forces in the post-war period, has again expanded in 1955 after the moderate decline of 1954. Not only were investment intentions raised for 1955, but the mid-year survey of investment indicates that total capital expenditures will be some 5% higher than originally forecast. There has been a sharp renewal of increased investment in manufacturing. This is related particularly to our rising level of exports of pulp and paper and non-ferrous metals. Capital outlays in the paper products group of industries are expected to be 73% higher than in 1954, and in non-ferrous metals group 53% higher. Increased investment in mining, quarrying and oil wells will run to 28%, in housing to 13% and in institutions to 20%. For the aggregate, the main increase is in construction rather than in machinery and equipment, which it is estimated will be only 1% above last year.

Exports and imports have both expanded during 1955 by more than 10% - and we are still running a trade deficit with the United States of over \$600 million a year. Our increase in exports has been in the non-agricultural field, with the major gains in base metals, lumber, chemicals, iron ore, primary iron and steel and newsprint. Shipments of

iron ore for the first eight months of 1955 were more than \$50 million compared with \$15 million for the same period of 1954. Exports of primary and semi-finished steel rose from \$20 million in 1954 to \$45 million in 1955. Similarly, crude petroleum exports have increased from \$4 million in 1954 to \$18 million in 1955. The largest absolute increase has been in forest products, which are \$120 million higher for the first eight months of 1955.

The increase in our imports has been spread fairly broadly throughout the various categories and has come, in the main, from the United States. This increase reflects our own increased economic activity with an increased volume of manufacturing and a growth in consumer expenditure.

Wheat and wheat flour, our major agricultural export, is very slightly down from last year, a small increase in the value of wheat exports being a little more than offset by the decline in flour exports.

The wheat problem as it exists today is not just a product of the temporary generosity of nature. The roots of the problem go much deeper than this. They lie in the national policies of a number of countries. Basically, the large stocks of wheat have arisen because of world acreage expansion. This acreage expansion has been the result of national policies of subsidies and tariff protection. The consequence of acreage expansion has been higher production. The estimated production for 1955 is not far short of $7\frac{1}{2}$ billion bushels compared with about 6 billion bushels for the average of 1935 to 1939.

United States wheat production has increased proportionately over pre-war figures considerably more than world production; and the building up of very substantial unsold surpluses has resulted. The ways and means by which the United States reduces these surpluses is of serious, indeed, vital interest to us.

In Canada we have a central selling agency for wheat, the Canadian Wheat Board, but we do not subsidize the wheat producer. The wheat grower in Canada receives an initial price on delivery and eventually a final payment which represents the net price received by the Wheat Board after meeting all costs of storing, handling, transporting and selling the crop.

The Canadian wheat producer is fully prepared to compete on equal terms in the world wheat market. He has confidence in the quality of his product and his technical efficiency in producing it. However, it is quite another thing to compete with wheat grown in other countries where it is heavily protected by either high tariffs or high subsidies, or both.

The problem of the Canadian wheat producer will only be solved with the removal of these high artificial barriers which now restrict, directly and indirectly, our access to the world wheat market. But I can only repeat - wheat production is the principal source of cash income of the great majority of our western farmers and we, as a Government, are bound to be greatly influenced by anything so vital to them and to our national economy.

During the past six months the Canadian dollar has moved closer to a position of parity with the U.S. dollar. Last January the premium on the Canadian dollar was about $3\frac{1}{2}\%$ but by the end of March this had declined to about $1\frac{1}{2}\%$. The Canadian-U.S. exchange rate remained fairly constant from this point until about a month ago, at which time the American dollar strengthened rather rapidly and on October 19 our two currencies were quoted at parity with each other for the first time since March 1952. As you know, fluctuations in the past two weeks have operated very close to the par level. Our policy has been, and continues to be, to allow our exchange rate to be determined by the normal play of economic forces without official intervention except to ensure orderly conditions in our foreign exchange markets.

We have witnessed this year a very sharp increase in the rate of economic activity, all the more striking in contrast with the somewhat sluggish performance of 1954. Although our rate of activity is high, there appears to be no ground for assuming any change of direction in the predictable future. We have re-established the upward movement in investment and we can look for continuing strength in consumer spending based on rising labour income. In the export field, apart from wheat, there are no adverse clouds on the present horizon. We have as well the substantial underpinning of consumer demand by family allowances, old age security, and unemployment insurance, and these were, I am sure, important factors in minimizing the recession in 1954.

For anything but the immediate short run, it is, of course, most difficult to make any useful prediction. We have, however, recently appointed a Royal Commission to examine our longer term economic prospects and to take a careful look at the probable developments of the next twenty-five or thirty years. Already it has had a stimulating effect in focussing attention on the direction in which we are moving, or should move. A considerable part of the Canadian post-war development has centred around the discovery of new mineral resources and the development of other natural resources, particularly the resources of the forest and the resources of water power. The large amount of investment in resource development is one of the reasons why Canadian investment has absorbed a higher percentage of gross national product in the post-war period than has U.S. investment. For the period 1946 to 1954, 18% of Canadian gross national product was devoted to domestic investment compared with 14% in the United States.

Eighty-five percent of this investment has been financed from our own domestic savings, but we have also benefitted from and welcomed a heavy flow of investment from outside our country. Most of this foreign investment has come from the United States, but we have been glad to see a considerable renewal of investment in Canada from the United Kingdom and from several European countries. We, on our part, have also been investing money abroad in substantial volume, both directly and through various international agencies.

While we welcome our close economic ties with the United States, we are convinced that our interests cannot be limited to North America. We live by world trade, and that is why we have devoted so much effort and money to helping to restore the fabric of a multilateral and friendly trading world.

The new opportunities which our development is creating is one of the reasons behind the more rapid rate of increase in the Canadian population than in the population of the United States. In the period 1946 to 1955 Canadian population has increased by 27% compared with an increase of 17% in the population of the United States for the same period. It is becoming common-place in Canada to think in terms of a population of 25,000,000 in the not very distant future. The addition of 10,000,000 more Canadians to our present population of 15,000,000, offers prospects of a market large enough to support a greatly increased number and variety of industries, operating at high levels of technical efficiency. And the further prospects of having next door to us possibly 50,000,000 more Americans, with steadily rising standards of living, is an irresistible long term bullish factor.

We on the North American continent are always on trial - we must go on proving to the world that our economic system is sound and that it offers unequalled opportunities to our peoples. All of us believe this to be so - but for that reason we must be sure that no action either of us takes is detrimental to the well being of the other. In the export field, spending based on rising labour income. In the export field, apart from wheat, there are no adverse clouds on the present horizon. We have as well the substantial underpinning of consumer demand by family allowances, old age security, and unemployment insurance, and these were, I am sure, important factors in minimizing the recession in 1954.

short run, it is, of course, most difficult however, recently a longer term economic the probable developments of the next twenty-five or thirty years. Already it has had a stimulating effect in focusing attention on the direction in which we are moving, or should move. A considerable part of the Canadian post-war development has centred around the discovery of new mineral resources and the development of other natural resources, particularly the resources of the forest and the resources of water power. The large amount of investment in resource development is one of the reasons why Canadian investment has absorbed a higher percentage of gross national product in the post-war period than has U.S. investment. For the period 1946 to 1954, 18% of Canadian gross national product was devoted to domestic investment compared with 14% in the United States.



For anything course, most difficult however, recently a longer term economic the probable developments of the next twenty-five or thirty years. Already it has had a stimulating effect in focusing attention on the direction in which we are moving, or should move. A considerable part of the Canadian post-war development has centred around the discovery of new mineral resources and the development of other natural resources, particularly the resources of the forest and the resources of water power. The large amount of investment in resource development is one of the reasons why Canadian investment has absorbed a higher percentage of gross national product in the post-war period than has U.S. investment. For the period 1946 to 1954, 18% of Canadian gross national product was devoted to domestic investment compared with 14% in the United States.

Eighty-five percent of this investment has been financed from our own domestic savings, but we have also benefited from and welcomed a heavy flow of investment from outside our country. Most of this foreign investment has come from the United States, but we have been glad to see a considerable renewal of investment in Canada from the United Kingdom and from several European countries. We, on our part, have also been investing money abroad in substantial volume, both directly and through various international agencies.

While we welcome our close economic ties with the United States, we are convinced that our interests cannot be limited to North America. We live by world trade, and that is why we have devoted so much effort and money to helping to restore the fabric of a multilateral and friendly trading world.