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No. 52/43 THE FOUNDATIONS OF CANADA'S POST-WAR PROSPERITY

A speech by the Minister of Justice, Mr. S.S. Garson, to the Toronto Young Men's Board of Trade, September 23, 1952.

... I propose to survey with you some of Canada's present responsibilities and opportunities.

Most of you doubtlessly view these responsibilities and opportunities as taxpayers and business men; I as one sharing responsibility for public policy. What we see are different sides of the same coin. Since, under present conditions, few things are more essential in our country's interests than that government and business understand one another's viewpoints, let us for a few moments look at this coin together.

In the last half-century our world has been disrupted by two great wars. As the aftermath, old and historic states have fallen; traditional patterns of trade and commerce have been damaged or destroyed; new nations, created out of war, now struggle precariously to maintain their existence; social, political and economic thinking has had to be revised or replaced. Everywhere there has been an atmosphere of turbulence and change, as all nations have sought to heal their war wounds and adapt themselves to the new conditions which the War, with its destructive effect upon established institutions and its stimulation of technological change, has produced.

Thus, the difficulties and problems of this post-war situation were grave enough in themselves. They have been enormously aggravated by the dark clouds of Soviet imperialism. The result of this is that the free world has had to superimpose upon the already heavy burden of reconstruction, the much heavier burden of defence. Some of the responsibilities we Canadian citizens now face are the result of these world-wide difficulties. They are brought home to us daily by the newspaper headlines and perhaps in an even more forceful way by the prices and taxes we pay.

The best way to dispel worry about future problems is to reflect on that we have come through since the War.

When we become impatient or disheartened by these pretty stark realities and by what appears to be the even more dismal prospects of the outside world of our day, the best antidote that I know is to look back at what we have come through in the past - in the very recent past. How recently it is that we were being favoured with annually-renewed prophecies of a post-war depression in Canada. How recently it is that so many of these intelligent and informed viewers-with-alarm never ceased to wonder how, as a relatively small nation, our civilian economy could possibly absorb at the end of the War the nearly two million Canadian citizens who had come out of our armed services and war

factories, or who, as young people, had come on the labour market looking for work during the War and at its end. Yet they all got their new civilian jobs in due course; and the problem of reconversion, of which the provision of nearly two million new civilian jobs was only a part, was successfully solved in its stride by the Canadian nation. Today, these same prophets of doom seem to have forgotten that the problem of securing these jobs ever existed or that there was ever any danger of the depression which they so long and so repeatedly were prophesying.

Again, as the world has been rocked by a succession of economic crises in the post-war years, crises which fell with particular severity upon some of Canada's best customers in Europe and elsewhere, many wondered how a great exporting country like Canada could keep going without the markets which these crises seemed certain to destroy. Yet, by one means or another Canada has managed, in the face of these difficulties, not only to maintain, but to increase its external trade upon which to such a large extent our prosperity depends.

Thus, from memories of the recent past, we may today glean hope with which to face the sombre prospects of the future; for Canadians have faced grim post-war conditions with such realism as to earn the admiration of the best-informed thinkers in the free world. In recent months, as a nation, we have been honoured in special issues of such American magazines as Fortune, Collier's and the Saturday Review of Literature, and such important British publications as The Financial Times, the Statist and the Economist. For example, the reasonably hard-boiled and sober Fortune goes so far as to say: "Canada's progress during the past dozen years is one of the economic marvels of the age. Thanks to an extraordinarily high and well-distributed volume of investment, public and private, she has undergone an all-around development not matched even by that of the U.S."

It is no wonder then that we have developed a new confidence in ourselves. We have to go back a long way in our history, perhaps as far as the first few years of this century, to see a comparable period of economic development matched by an equally enthusiastic faith in our future. Some of our contemporaries can recall from their original source the famous words of Sir Wilfrid Laurier that "Where the eighteenth century belongs to Britain and the nineteenth to the United States, the twentieth century belongs to Canada." I do not know how many took this statement seriously then. Nearly every Canadian believes it now.

Most people who write or speak of what is going on here refer to it as a "boom". The American magazine Fortune refers to the Canadian boom as being "twelve years old and going strong". Now there are booms and booms. We have had some in our past that were not so good, that eventually resulted in a rather bad reaction. That this seems not to be the case with our current condition has been pointed out by the great English journal, the Economist, regarded by many as the finest economic magazine in the English language, which says in its issue of July 5, just about three months ago:

> "No boom was ever painless, but the Canadian boom perhaps comes nearest to earning that distinction. Canada is not merely favoured with abundant material resources. It has had the good sense - or the good luck - to provide itself with good government. Its economic affairs have been handled with a skill unexampled throughout the world. It has found, in the short space of two or three years, a degree of self-confidence that is the proper mark of a

> country entering upon the early stages of economic maturity. Already occupied with a load of work that less vigorous countries might stretch over a generation, Canada has the faith, and professes to have the capacity, to proceed with the gigantic St. Lawrence Seaway scheme and to disregard Washington's refusal to participate. It would certainly be unwise to reach the conclusion that too much is being attempted too quickly. It is true that the defence programme has yet to make its full impact on the Canadian economy. But the rise in both industrial and agricultural productivity since the War has been so astonishing that Canada may well be able to provide guns, factories, and butter all at the same time.

This is but a sample of similar tributes from other authoritative journals published outside of Canada.

Some Impressive Statistics Of Canada's Post-War Development

But these tributes, while in all truth specific and authoritative enough, are after all only language or opinions. Let us see how they can be supported with statistics. During the War we spent something like $6 billion in enlarging our productive capacity for war purposes. We converted all of this $6 billion of productive capacity to civilian uses without a hitch. Now, that is quite an achievement in itself. We did not reconvert too smoothly, for example, after World War I, as those who have recollections of the 1922 depression will certainly remember. But after our World War II reconversion, that is, from the end of the War until 1951, private industry in Canada had such confidence in our people, our policies and our future that they invested more than $16 billion more in new plant, and in this year, 1952, a further sum of more than $4 billion is being invested. Thus, our investment in new plant and equipment in real terms has increased by 153 per cent since the beginning of the war. The effect of this stupendous investment in our own future - an increase of more than 2½ times in a space of twelve years, - has made itself felt in all departments of our national activity. This is part of our answer as to whether the twentieth country belongs to Canada.

Since the beginning of the War, our population has increased by more than twenty per cent. But our foreign trade, in volume, has increased by seventy-five per cent, and our volume of production by 100 per cent. After all allowances are made for price changes, the statistics show that the real income and the standard of living of the average Canadian has risen by more than fifty per cent. It is in passing a matter of some pride to realize that even the United States had not done so well.

These statistics have quite a story to tell to all those who read and can properly interpret them. But if anyone doubts them he can secure confirmation by looking around him. On every side is visible evidence of the development which has taken place in Canada. Here in the heart of industrial Canada old firms have expanded and new ones have been founded. In the country as a whole not less than 1500 new manufacturing firms have started business since the War.

Canada's Development Is Not Complete. It Is Just Getting Into Its Stride

All across the country spectacular developments are taking place. I won't detail them. You know them. In Newfoundland, which only joined our Confederation three years ago, resources are being developed at a prodigious pace.

In the Maritime Provinces, construction is being started on the Canso Causeway and the steel capacity at Sydney is being increased. In the other provinces we have, to mention only the highest lights: the Quebec iron, titanium, zinc and copper; the nickel of Manitoba, and a 147-mile railway to develop it; the oil not only in Alberta but in the other three western provinces as well; the aluminium development in B.C. and Quebec; chemical in Ontario and Alberta. We have in immediate prospect the building of the St. Lawrence Seaway and the power development which will accompany it; and the most recent proposal is to build a gas pipe-line from Alberta to Ontario and Quebec.

Less spectacular, perhaps, but no less important are the things which have followed and will follow in the train of these gigantic developments - the new oil refineries, the new pipe-lines the smelters, processing mills, factories, new chemical industries and plants, the enlarged transportation facilities which are emerging all across the nation, and a large increase in our population. Hardly less important is the development of the new municipalities, the construction of new houses, (the largest number of new houses completed in the world in proportion to population).

The great development of new things has been matched by an increase in efficiency in the established industries. Today, although the number of people employed in agriculture is less than before the War, production is up by twenty-two per cent. Pulp and paper production is nearly doubled. Aluminium has increased five times, petroleum six times, iron ore thirty-eight times. We produce nearly three times as many automobiles as before the War, and six times as many refrigerators. This list could, of course, be indefinitely extended.

Canada's Present Development is Neither Haphazard nor Unplanned

This is not a haphazard or unplanned development. When, in the nineteenth century, our resources were locked up behind an inhospitable climate and formidable natural barriers, the delay which then held us back gave us time in which to learn and profit from the mistakes which other nations made in the exploitation and partial exhaustion of their resources. Because in the nineteenth century we were backward compared to, say, the United States, we are now able to go forward more intelligently in the twentieth century. As a result, our present development is being accompanied by important conservation measures which are being applied to all our great natural resources; to the forests, the fisheries, the oil wells, and perhaps most important of all, in the form of reclamation and irrigation and other projects, to the land itself.

Canada's Post-war Progress has been Sound

For those who fear the effect upon Canada of the disordered world about us, I think it should be pointed out that this present impetus, which is still strong and vital, began and has continued in the midst of a disordered world. We are not over sanguine, I submit, if we think we can continue to keep it going notwithstanding the continuing adverse world conditions; for in Canada itself our activity, notwithstanding its speed and its intensity, has nothing false or inflated about it. The industries which we have encouraged and fostered are low-cost, efficient, competitive industries which have come into existence during a period when we were lowering rather than raising our tariff. They are not the kind that will shrivel up under the first blasts of competition or adversity. The result is that Canada's present economic programme is a soundly-based effort to produce to meet a widespread and genuine need throughout a world which has an awakening and rapidly-growing population, and an overall inadequacy of developed resources. Whether the world can avoid war or not, there is a need for what we are producing and organizing

to produce in Canada, provided our own policies and the policies of other countries make it possible for us to trade with them in order to fill that need. It is wrong trade policies, that is, restrictionists, protectionist trade policies, which are the antithesis of our expansionist policies of multilateral world trade, which more than any other single factor would injure our present economic activity and the progress and prosperity which results from it. Trade policy is the ball upon which we must keep our eyes.

Multilateral Foreign Trade is a Vital Factor in Canada's Prosperity and our Nation's Policies should be based upon this Fact.

Sometimes some of our people are alarmed by the extent to which our national economy depends for its vitality upon foreign trade. Certainly if foreign trade is to be feared, we Canadians should be fearful; for, in relation to our size, we are by far the greatest trading nation in the world. Not less than 25 per cent of our production goes into foreign trade. This trade amounted in 1951 to $8 billion, which was approximately $561.00 per capital. This is over 3½ times as great as the per capital trade of the United States of $168.00 or more than 50 per cent more than that of Great Britain at $369.00.

Yet, some people in Canada argue that the course of our development should be altered, that we should process and finish more of our own raw materials in Canada; and that, for example, rather than export iron ore, we should enlarge the steel-producing capacity of this country. Now, while from our government's deeds it is perfectly clear that we believe in enlarging the steel or any other producing capacity of Canada to the optimum point, we do not by any means agree with the view that we should process all of our raw materials in this country. We have always favoured policies which will increase our foreign trade. We therefore think that these superficially plausible suggestions of greater self-containment, (that is what they really are) would, if adopted, run counter to our whole experience in the development of the Canadian nation to its present prosperity. Our geography and resources are such that we have large exportable surpluses of a certain list of products: wheat, beef, pork, fish, fruit, and other foodstuffs, newsprint, lumber, and forest products, iron ore, non-ferrous metals and other mineral products and the like. We cannot possibly use the total output of these commodities ourselves at our present stage of development. They are only of value to us if we can trade them for products which we need and cannot produce economically for ourselves. There are many such, for we are large importers as well as large exporters.

If, then, we process all our own raw materials and shut out goods which other countries can produce more cheaply than we, we injure Canadian interests in four ways:

First: We destroy markets for our wheat and other foodstuffs, our newsprint, copper, nickel, aluminium and other exportable surpluses. How? By helping to make it impossible for other countries to sell goods and thereby earn the money with which to buy our Canadian surpluses.

Second: We make our own consumers pay through the nose for inefficient and high-cost production in Canada when the could get low-cost production elsewhere. For example, there is no sense in their buying Canadian-grown bananas when they can get better bananas for less money from the tropics, and in the process provide the banana growers with money to buy Canadian surplus products.

Third: If we refuse to export our own raw materials to other countries, they can refuse to export their raw materials to us. As a result, we would both suffer. Certainly we would, for some of our most efficient industries - aluminium, for example - would fold up overnight if they could not import raw materials from outside of Canada.

Fourth: We would encourage war. For there is no disagreement that the manifold trade restrictions of the 1920's and the 1930's certainly conduced to World War II. Hitler's Lebensraum argument that his country had to have colonies and the like was false, but it was perhaps the incorrect exposition of a point that was quite true, namely, that to Germany raw materials were absolutely vital. Having few of her own, her industries and people would starve if they could not get them. When the rest of the world, for whatever reasons and by whatever methods, prevents that nation from getting the foreign exchange with which to pay for and import raw materials, it in effect refuses to supply the raw materials. If as in Germany's case, the raw materials are vital to the nation's survival and it cannot get them by trade, there is a great temptation to secure them some other way. Take a Canadian example: we use what would otherwise be the waste waters of the Saguenay River at Shipshaw to produce $150 million a year worth of aluminium out of the bauxite from British Guiana and fluorspar from Greenland. If we cannot get these by foreign trade, our capital investment becomes valueless and the $150 million per year becomes waste waters and our aluminium workers are out of a job. What then would our attitude be if we were a powerful nation and these essential raw materials were shut off arbitrarily, either directly by a ban on their export or by a refusal to provide Canada with foreign exchange by buying Canadian goods? And aluminium is not an isolated case. Our resources are substantial, but they are in no sense complete, and some of them are by no means inexhaustible. For many years, the importation of coal, oil, iron ore, bauxite, wool, cotton, rubber and a variety of essential exotic foodstuffs, to name only a few of our imports, were all essential to the maintenance of Canada's production. We, therefore, are of the opinion that for Canadians the end result of any policy of quotas and restrictions can only be impoverishment, not only of our own country, but of the world at large. This was certainly its effect in the period between World War I and World War II. Our Government, therefore, has always resolutely followed the opposite policy of encouraging multilateral foreign trade. With other countries, particularly since World War II, we have laboured, with a considerable measure of success, at international trade conferences and elsewhere, by loosening restrictions upon, to enlarge multilateral world trade. Our aim has always been to provide expanding markets, not only for our own products, but for those of other nations. For they also need markets in which to sell their produce for the moneys with which they buy our products from us. This policy has been successful, and its success is the basis of a large part of Canada's present economic activity and prosperity. Thus, when friendly critics, or critical friends, or sometimes critics who are not friends, suggest it would improve Canada's position to join this group or that bloc of nations and let the rest of the world go by, our reply is that none of these groups or blocs seemed to have worked very satisfactorily; and that in any case, it

seems clear that as a nation destined by her resources and geography to be a great trading nation, Canada cannot escape the effects of world-wide difficulties by pursuing isolationist economic policies.

Canada's Domestic Financial Policy has been an Essential Factor In Our Prosperity.

As with external trade problems, panaceas have been freely offered to us as a solution for some of our domestic problems. You will remember that by the beginning of the year 1950, we had successfully surmounted the most pressing post-war problems. The Canadian economy was running at a high level. Our prices at that time had been relatively stable for no less than a year and a half. Not only had the huge volume of government expenditures necessitated by the War and post-war reconversion been considerably reduced, but we had made substantial reductions in our national debt as well. And I might perhaps here in passing point out that our total reduction of the entire public debt since the War has been up to this date no less than 20 per cent, an amount of $2.2 billion, which effects a reduction in the interest charges upon our public debt of $60 million per annum. It is probably hard for us to remember this at the present time, but Federal taxes also had been progressively cut up until 1950; and all in all, it seemed as if we were then entering into a new period of orderly post-war development.

Then, overnight, came the aggression in Korea. Its aggravation of the peril of Soviet imperialism already facing the world resulted immediately in greatly increased security programmes in all the free countries. Our own defence expenditures almost doubled, and in 1951 and 1952, they amounted to virtually 50 per cent of the total expenditure of the Government and accounted for not less than 10 per cent of the gross production of the nation. This development was duplicated in the other free nations and was accompanied by a rise in the demand for a number of relatively scarce materials. This resulted immediately in a substantial increase in world price movements.

These world-wide movements and our own planned redirection of our economic effort for defence purposes reflected themselves in Canada in rather sudden price-increases and shortages of essential materials here. At once many people thought that the wartime price control should again be put into effect. They overlooked the fact that price controls constituted only a part of the whole wartime control apparatus which extended also to wages, supplies of essential materials, rationing and numerous other expedients including very high taxes. However, most Canadians thought, and we thought, that this type of all-inclusive rigid control, while appropriate to the relatively short period of total war, was not desirable in our present long-term peacetime, or if you like, cold-war defence effort. We did not think that this type of rigid control would work in peacetime. And we were right. Where it was tried, it did not work. Other countries, as a result, have suffered in their defence efforts from the distortions caused by an unsuccessful price control policy.

Thus in Canada we avoid the tempting, easy way by adopting the hard and sound way. We adopted a pay-as-you-go policy for defence expenditures. To this end, we increased taxes, imposed credit restrictions, and by withdrawing depreciation allowances, discouraged unessential activity in favour of essential development. Our aim was to reduce the inflationary pressure upon our economy; and at the same time to encourage its further expansion and development so that we could take care of our heavily-increased defence production and also of essential civilian needs.

The success of these measures has meant that our nation has come through this rather trying period without having had to subject itself to detailed government control and intervention in business. Business, left alone, has given a magnificient account of itself, and in consequence, Canada's position today is as strong as that of any country in the world. The American magazine Fortune has described the result in these terms:

> "Canadian fiscal, monetary, banking, and tax policies are professional and undemagogic ... recent budgets have been more than balanced, the national debt (less than half the American debt, per capita) has been reduced by 10 per cent, excess-profits taxes have been shunned, heavy taxes have been levied directly on consumers, the interest rate has been allowed to rise, 'deferred depreciation' has been introduced, direct controls have not been imposed.....All this, plus a well-defined policy of encouraging business to expand, has produced a government that businessmen like uncommonly well."

That last phrase, I emphasize, is Fortune's, not mine.

It has always been and it remains our view that the best course which the Government can follow is to provide an economic climate and environment in which business and economic activity and trade can thrive. That is what we have done. Our aim in all these matters has been to give ample scope to the ingenuity and industry of our fellow citizens in the hope that that ingenuity and industry will develop our nation and our prosperity. We therefore, have paid much more than lip service to free enterprise. All our policies have been designed to promote it. As a government, we have placed our trust, our judgment and our reputation on free enterprise, in the confident expectation that the free people of Canada would make it work. And how magnificiently they have vindicated our judgment! That is why it is such a great pleasure for me to appear before such a representative body of free enterprisers as the Toronto Young Men's Board of Trade, to express to you the gratitude which my colleagues and myself feel for the very great contribution you have made to these results, a contribution typical of the enterprising people of a free nation.

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