

# Canada Weekly

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## Effects on Canada of recent changes in the world economic situation

*The following is the text of the opening address by Finance Minister John N. Turner to the Federal-Provincial Conference of First Ministers, which met in Ottawa in the Government Conference Centre on April 9 and 10:*

In the last few months, several important developments in the world economic situation have taken place.

First and foremost, the recession in the industrial countries has become more widespread and more serious than had been expected. There has been a veritable parade of revised forecasts, each one predicting lower levels of activity than its predecessor. It is still expected that a recovery will set in during the second half of this year. But the earlier optimism that this recovery would develop into a vigorous expansion in 1976 has been replaced by the general expectation that the OECD (Organization for Economic Co-operation and Development) countries are likely to continue to experience a substantial degree of slack through 1976.

Secondly, with the recession of activity some decline in commodity prices has set in, and the prospects for moderation of price increases have improved. These prospects vary from country to country depending upon the course of domestic cost-determining factors.

Indeed, in some of the OECD countries the forces of inflation emanating from domestic cost developments have become more virulent in recent months. Thirdly, the recession, the break in the acceleration of prices and deliberate policy measures have all combined to produce a lower level of interest-rates around the industrial world.

Finally, while the balance-of-payments deficits of the oil-importing countries burgeoned much as had been expected, it would probably be fair to say that concern over the great oil-deficit problem is somewhat less now than it was some months ago, though it properly remains high. The moderating of concern emanates from three facts: the oil-exporting countries have shown a higher propensity to import goods and services than had been expected; oil imports by consuming countries levelled off dramatically and the international price of oil ceased to rise, so that

there are some signs of an over-supply in the international markets; and, finally, the recycling of oil funds has proceeded with considerable smoothness as official bodies and the private markets have both operated effectively.

I am planning to visit several of the oil-producing countries in the Middle East later this month, to discuss international economic problems with their economic and financial leaders. I do not believe in the economics of confrontation and I believe it is important that the industrial world develop its relationship with these countries, which have a major role to play in the smooth functioning of the international monetary system, in the adjustment of payments balances and in the flow of aid to poorer countries. On my way, I expect to call on the Minister of Finance of France and the Chancellor of the Exchequer in the United Kingdom for further consultations on the world economic and financial prospects. Of course, I have frequent contact with the Secretary of the Treasury of the United States.

### Special problems for Canada

The changes in the world economic situation have affected Canada's performance and prospects, and we have developed some trouble of our own.

The slowing-down of the industrial economies has adversely affected our own economic performance, although the slowdown in Canada has not reached the proportions that it has in the United States. Real GNP (gross national product) fell 2.2 per cent in 1974 in the United States; in Canada it rose 3.7 per cent. Last year the United States had four successive quarters of declining real output; in Canada, growth ceased after the first quarter of last year, was zero for the next two quarters and declined only in the fourth quarter.

The real demand for Canadian exports decreased last year. After the middle of the year, housing starts fell off



rapidly. By the fourth quarter, the slowdown had spread in varying degrees to all the main categories of real domestic demand with the exception of business investment. We were also plagued last year with serious loss of output owing to work stoppages arising from industrial disputes.

The current account of our balance of payments deteriorated by nearly \$1.5 billion last year. The surplus on trade account alone declined by some \$1.25 billion. The deterioration of the trade account was even larger in constant dollar terms, since the prices of our exports rose much more rapidly than those of our imports.

Employment grew strongly through most of last year. The unemployment rate first fell but then stabilized in mid-year. Towards the end of the year, the decreases in output began to affect the growth of employment and the unemployment rate moved up.

#### Prices, wages and profits

Increases in prices in Canada in 1974 were a good deal larger than in the previous year, and prices of final goods and services accelerated through most of the year. Although world commodity prices decreased in the second half, the impact of these decreases on final-goods prices in Canada only began to appear at year-end. World oil prices increased tremendously in 1974, and the increases were large in Canada, even though our policies cushioned the impact of the world changes. Increases in most farm-gate and imported food prices continued in 1974 at very high levels, reflecting particularly the disappointing 1974 harvests in North America and elsewhere. The dominant factor in the change in Canada's price experience in 1974, however, was the rapid increase in domestic costs, reflecting sharp increases in the prices of labour and other "inputs", as well as the poor productivity performance associated with the flattening and, later, decline, in output.

Up to the end of the third quarter, both wages and profits per unit of real output continued up strongly. But in the fourth quarter the situation changed. Profits per unit of output tumbled by 6.7 per cent. Wages and salaries per unit of output, on the other hand, continued to advance. To my mind, this continued surge of wages and salaries and the sagging of profits epitomize the

problems of the Canadian economy in the period ahead.

Let me be a little more specific on this question. If one considers the data on wage settlements, one is struck by the fact that, whereas in the early 1970s the increases in our settlements were, on the average, below those of the United States, for the last three years the increases in our settlements have been higher. The margin is now very wide. Indeed, the increases in settlements for the first year of new contracts, at about 20 per cent, are roughly twice the size of those in the United States. The increases in average hourly earnings are also now running about twice those of the United States. Our increases in labour costs per unit of output for the economy as a whole are not only high (17.3 per cent in the fourth quarter last year), but in the latter part of last year began to run very much ahead of those in the United States. In the manufacturing industries, our absolute levels of average hourly earnings pulled above those in the United States in the course of last year, and are rising much more rapidly than in the United States. In the non-manufacturing industries, increases in wage settlements tend to run even higher than in the manufacturing industries. Settlements for government employees, for teachers and for other service employees exert an upward pull on settlements in the goods-producing industries. These stark facts should warn us of the danger we face of a very serious loss of competitive position that threatens our export industries and our domestic import-competing industries.

#### U.S. economic prospects

Looking ahead, the prospects for the U.S. economy are, of course, of particular concern to us. The policy position in the United States has been unclear and even yet leaves some important questions unanswered. Monetary policy has been eased — certainly interest-rates came down quite sharply, though there has recently been some reversal of that decline. A more stimulative fiscal package has now been patched together by the Congress and the Administration. The extent of the expenditure side of that package is not yet evident, however. Most observers expect the rate of growth of output in the United States to pick up in the second half of this year, but even so

there will be a substantial decline in real output this year. Unemployment will remain high. A characteristic of the U.S. recession has been a substantial working-down of inventories. The rebuilding of inventories will be a feature of their recovery. The more difficult question to assess is the strength of fixed capital investment in the U.S. recovery. The general view now is that capital investment, including housing, will strengthen and add force to the recovery, especially in 1976, but that, in spite of this fact, output will still be well below potential at the end of 1976. The pick-up of employment and the decline in unemployment will be sluggish because of renewal of expansion is typically characterized at the beginning by an increase of productivity rather more than of employment. Accordingly, unemployment rates will remain high in 1976. Rates of price-increase may well fall appreciably in the United States over the next two years. This will be the more likely if the United States manages to continue to keep its domestic cost-increases within reasonable bounds.

#### Nature of Canadian recovery

For Canada, our problem will be to turn the economy around and to achieve a recovery of real growth. To do this, we shall have to achieve some moderation of the inflation. A good response to our quest for a national consensus on price and incomes, about which I shall speak later, would be of great benefit to the Canadian economy in terms of prices, growth and employment.

Canada was among the first of the industrial countries to adjust its policies in response to the softening of the economy. The stimulus that we provided in the November Budget and that derives from the adjustment of monetary policy last fall is at work in the economy now. The automatic stabilizers, such as higher Unemployment Insurance Commission payments and lower tax receipts brought into play by the decline of activity and of profits, are also having their cushioning effects.

As of this moment, without making any allowance for new policy initiatives, it seems unlikely that, on average, our national production this year will be appreciably higher than last year. From the evidence at hand, it appears that we have had a decline in production in the first quarter and we



**Seventy-fifth anniversary of Canada's first credit union**

This year marks the seventy-fifth anniversary of the founding of the first credit union in North America, the *caisse populaire* of Lévis, Quebec.

More than seven million Canadians are members of credit unions across the country and these organizations have assets of more than \$8 billion.

"The role played by credit unions and *caisses populaires* in Canada has been one of very great importance, especially in rural areas," says Agriculture Minister Eugene Whelan.

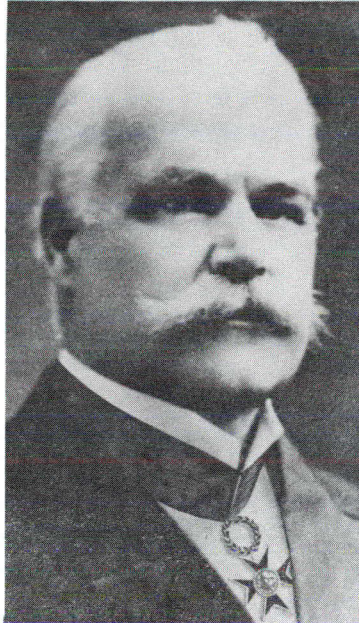
"These institutions are part of the co-operative movement which has helped make Canadian agriculture one of the most prosperous in the world."

Commenting on the seventy-fifth anniversary of the *caisse populaire* in Lévis, Mr. Whelan says:

"I want to pay homage to Alphonse Desjardins, the clear-sighted man who, in 1900, established our first credit union to stimulate in everyone the spirit of saving and sharing."

Alphonse Desjardins, born in Lévis, near Quebec City, in 1854, served for several years in the army and then worked as a reporter for the legislative assembly in Quebec. Later, as a stenographer in the House of Commons in Ottawa, he witnessed debates which made him sensitive to the hardships that high interest rates caused for poor families.

After corresponding with the European pioneers of the co-operative credit movement, Desjardins founded the credit union in Lévis. He subse-



*Alphonse Desjardins, founder of Canada's first credit union.*

quently founded others in Canada and the United States.

**Special commemorative events**

A permanent exhibition has been set up in Lévis in the *caisse populaire* in honour of Alphonse Desjardins and a civic celebration will be held there later this year to mark the founding of credit unions in Canada.

An 8-cent stamp, bearing a likeness of Desjardins, will be issued by the Post office and, next month, meetings of the National Association of Can-

Credit unions and *caisses populaires* are co-operative societies organized among groups of people to accumulate savings and lend the money to members at reasonable rates of interest. The Rustico Farmer's Bank, chartered in Prince Edward Island in 1864, was a forerunner of these credit organizations.

Credit unions and *caisses populaires* now have more members and more assets than all other types of co-operative added together. In 1971 there were 4,444 credit unions and *caisses populaires*, with 5,454,292 members and total assets of \$5.6 billion. The Province of Quebec, still leading, has about 38 per cent of all the finance co-operatives in the country, 56 per cent of the total membership and more than 50 per cent of the assets.

Central credit unions and *caisses populaires* have been formed in all provinces. These act as depositories for the surplus funds of their member locals, and lend money to their members and, in some cases, to other co-operative organizations. Membership of the centrals is composed chiefly of local credit unions and *caisses populaires*. Altogether, there were 20 centrals in Canada in 1971. Some of these served a small region, others whole provinces. Their total assets were \$852 million, including investments of \$367 million and loans to members of \$180 million. Members' deposits totalled \$735 million and the centrals made loans of \$478 million to members during that year.



*Site of North America's first credit union. The *caisse populaire* of Lévis,*



*Quebec, founded in 1900, has since moved to a larger building, where it is*

*celebrating its seventy-fifth anniversary this year.*



adian Credit Unions and the Canadian Co-op Society will take place. The Canadian Council of Co-operatives and the Co-operative Union of Canada will meet in June. All meetings will be held in Quebec City.

In October, an international symposium on the role, the problems and objects of savings and credit unions will take place in Montreal.

### National Ballet in Europe

Ninety-three members of the National Ballet of Canada, including dancers and music, production and administrative staff, left Canada on March 28, for the company's second European tour.

The three-week itinerary included the Coliseum in London (April 2 to 12), the Nederlands Congresgebouw in The Hague (April 15), the Stadsschouwburg in Eindhoven (April 17) and the Stadsschouwburg in Amsterdam (April 18, 19 and 20).

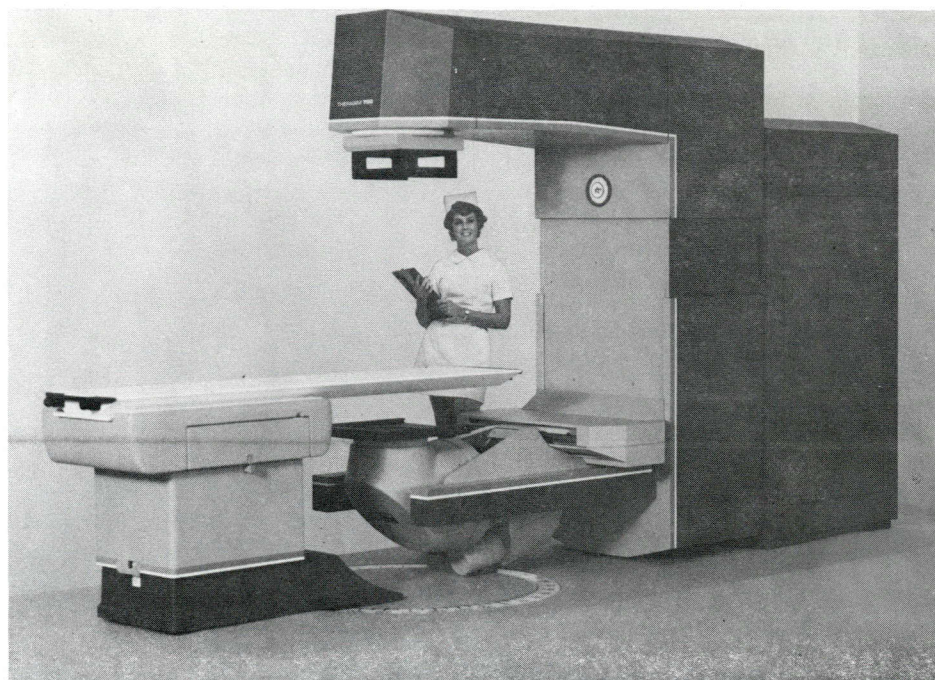
On this tour the National Ballet presented four productions from its current repertoire: Peter Wright's *Giselle*, John Neumeier's *Don Juan*, Gerald Arpino's *Kettentanz* and Erik Bruhn's new production of *Coppelia*.

The opening gala performance in London in the presence of Princess Margaret, was for benefit of the Royal Academy of Dancing and the Cecchetti Branch of the Imperial Society of Teachers of Dancing. Rudolf Nureyev and Erik Bruhn made guest appearances in some of the performances in London.

### First ballet exchange

In the Netherlands, the National Ballet of Canada took part in a special cultural exchange marking the thirtieth anniversary of the liberation of Holland by the Canadian troops and the seven-hundredth anniversary of the City of Amsterdam. In return, the Dutch National Ballet made its North American premiere in Canada at the end of April.

The second European tour of the National Ballet of Canada was under the auspices of the Department of External Affairs, with the co-operation of the Canadian Embassies in London and The Hague, the Netherlands Ministry of Culture, Recreation and Social Welfare and the Municipalities of The Hague, Eindhoven and Amsterdam.



*The THERASIM 750 is one of the newest items in AECL's family of radiotherapy equipment. A model was introduced in October at the Interna-*

*tional Cancer Congress at Florence, Italy. In December, the unit was demonstrated at the Radiological Society of North America, in Chicago.*

### THERASIM 750 simulators an aid in cancer therapy

Simulators such as Atomic Energy of Canada's THERASIM 750 are a recent milestone in the treatment of cancer by radiation.

These machines are used in two ways. Simulators look at the patient in the same perspectives, and with the same distance and movements, as a cobalt-60 machine or accelerator. This enables the doctor to plan, rehearse, correct

and verify exactly how the patient will be treated on a teletherapy machine. Equally important, the medical team can also use the simulator to perform diagnostic procedures and check on the progress of treatment.

Simulators such as the THERASIM 750 employ fluoroscopic and radiographic techniques to define the location of the tumor.

### Student loans — proposed boost in annual limit

Parliament will be asked to approve an increase to \$1,800 from \$1,400 in the annual loan limit under the Canada Student Loans Plan, Finance Minister John N. Turner announced recently. The \$400-increase would be effective July 1.

The maximum total borrowing by any one student under the plan remains at \$9,800. Mr. Turner said that the boost in the annual maximum is proposed in recognition of higher living costs and educational costs facing students. The last increase was made in July 1972.

To qualify for assistance, students must be engaged in full-time study at

specified post-secondary institutions, and must demonstrate a need for financial aid. Loans are approved by provincial authorities and are made to students by chartered banks and other designated lenders such as credit unions.

The Federal Government pays the interest on the loans to the lending institutions while the borrower is a full-time student and for six months thereafter. The student then becomes responsible for repayment of the loan and the ensuing interest charges and has a maximum period of nine-and-half years in which to complete repayment.



## Newsprint – Canada's top product

About 60 companies in Canada operate some 140 mills, producing newsprint, pulp for sale to other paper companies, paperboard for packaging purposes, and a wide range of other papers and boards. Newsprint, the leading product, is shipped to newspaper publishers round the world. In fact, Canada produces about 40 per cent of the world's supply of newsprint.

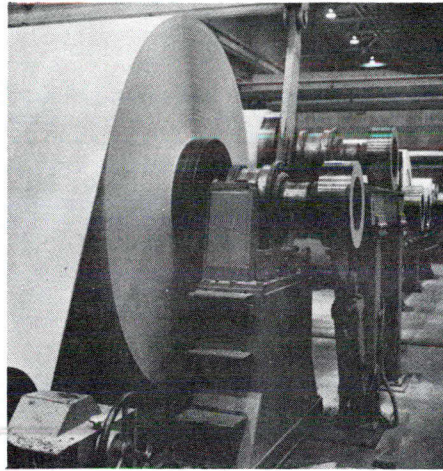
Most of the wood pulp sold is also exported, largely to the United States but increasingly in recent years to Japan and Europe, to mills that convert it to paper or paperboard. Some special highly refined pulps are shipped to the chemical industry, where they are used to manufacture rayon, cellophane, plastics, explosives and other products based on cellulose as a raw material.

In addition to paper, pulp and paperboard, the industry also produces a number of by-products that result from its manufacturing processes. These include alcohol, yeast, vanilla flavouring, cement additives, road binders, turpentine, industrial solvents and other chemicals.

Many companies also produce lumber, plywood, building board, shipping con-



White spruce – one of Canada's prime sources of fibre for making paper.



Newsprint comes off the papermaking machine in a continuous sheet at speeds up to 3,000 feet per minute.

tainers, packages and bags. Some generate electric power and operate shipping fleets. A growing number have established plants in the United States, Europe and other areas of the world to broaden and strengthen their position, and that of Canada, in the expanding international forest-products industries.

### Pulp and paper

Pulp and paper is the largest single creator of wealth in Canada. It stands first among all the manufacturing industries in value of production, employment, wages paid and capital invested. It is a national industry, with mills in British Columbia, the Prairie Provinces, Ontario, Quebec and the Atlantic Provinces. Some 20 million tons of products with a value of about \$4 billion are produced each year. More than 75,000 people work in the industry's mills and offices, and many more are engaged in the huge task of harvesting wood in the forests and transporting it by water, road and railway.

### First Canadian mill in Quebec

Although paper was first made in China nearly 2,000 years ago, Canada's first paper mill was built in 1805 in St. Andrews, a small village near Lachute, Quebec. The raw material at that time was rags, which were converted by hand into wrapping and printing papers. The first machine-made paper in Canada was produced at a mill built near Toronto in 1826. Throughout the nineteenth century the use of paper increased tremendously, and rags from

which to make it became scarce. About mid-century the industry was revolutionized when methods were developed for making paper from wood.

### From trees to paper

One is so accustomed to finished smooth, white sheets of paper that it is hard to think of them as being made of millions of microscopic ribbons, but this is the case. These ribbons originally were tiny tubes of fibres packed side-by-side in the trunks of trees.

Although the fibres appear in cross-section as open tubes, in a piece of wood they have closed ends and each one is very short – about 1/8 of an inch in length – and very thin – about 1/1,000 of an inch in diameter. Separated from wood, they look like tiny needles.

To make paper from wood it is necessary to separate the fibres from one another, treat them in certain ways so

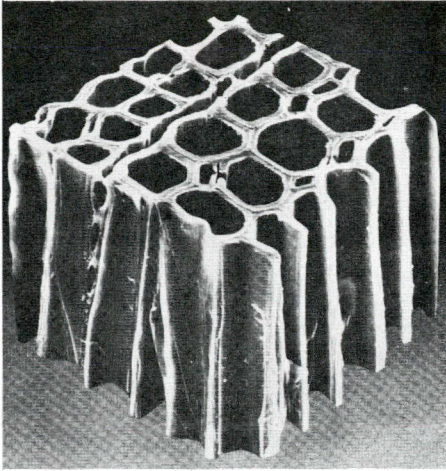


The surface of writing paper looks like this when magnified 220 times. Wood fibres, now flattened into tiny ribbons, overlap each other in all directions.

that the tubes collapse into ribbons, disperse them in water, and drain away the water on a fine screen. The fibres settle on the screen in a random fashion, crossing one another in every direction, but they all settle in the same plane on the screen.

Glue is not needed to stick the fibres together because they all carry on their surfaces a natural adhesive which, when the water is drained away and evaporated, bonds them together the same way as a postage stamp is bonded to an envelope.





The tubular structure of wood fibres can be seen in this block of spruce wood, magnified 1,000 times.

There are two ways to separate fibres from wood. One involves mechanical action only — a log is pressed against a grindstone running in water, or wood chips and water are fed between two rough-surfaced, counter-rotating steel discs. In both cases, the wood is torn apart and disintegrated into fibres and fibre fragments. However, the damage to the fibres is so great that only paper in which cheapness is more important than strength can be made this way. The best example is newsprint.

After they have been separated from the wood, the pulp fibres may be further purified by screening, washing or bleaching. Sometimes, chemicals or dyes are added to the pulp or several kinds of pulp are mixed. This is done to give the paper strength, colour, particular printing qualities, or other special characteristics depending on its intended use.

The machines upon which the paper is finally produced are often as long as a football field. They cost millions of dollars to build, and can produce continuous ribbons of paper at speeds exceeding 30 miles an hour.

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Ahnliche Ausgaben dieses Informationsblatts erscheinen auch in deutscher Sprache unter dem Titel Profil Kanada.

### World economic situation

(Continued from P. 2)

may have a further decline in the second. We anticipate some turn-around in the second half, but we think the recovery in the second half and into 1976 may be sporadic and sluggish.

Exports will not pick up until the U.S. economy gets into its recovery phase. We may well find, however, as I have suggested, that the rise in our costs will restrain the recovery of our exports and give trouble to our import-competing industries as well. We are anticipating that the deficit in the current account of our balance of payments will increase substantially in 1975. The terms of trade that have been moving in our favour will move against us as the prices of the goods we export will rise less rapidly than the prices of the goods we import.

### Current-account deficit

The financing of the current-account deficit will require the net import of a substantial amount of capital. Last year our net capital imports were just under \$2 billion. This year we shall probably require an inflow of significantly more than twice that amount. As you know, I recently withdrew the request to Canadian borrowers to explore fully the availability of funds in the Canadian capital market before floating issues outside of Canada. Parliament has also approved an extension of the exemption from withholding tax of interest on Government bonds. The exemption will now apply to Government securities issued before 1979. I should like to take this occasion to remove any confusion that may exist as to the policy of the Government of Canada regarding the foreign sources from which Canadian borrowers may seek to obtain capital. It is the policy of the Government not to express any preference among the foreign sources of capital flowing to this country.

The current-account deficit and the associated import of capital means that we shall be making a larger net drawing of real goods and services from the rest of the world. I recognize that a higher Canadian deficit is helpful in the broad picture of the adjustment of world payments balances. I should prefer it, of course, if the net increase in our use of foreign goods and services were also a net increase

in supply flowing onto Canadian markets and not just a substitution of foreign supply for domestic. Our inflation problem would be relieved by a net increase in supply available on our markets. Our employment problem would be relieved if the foreign-source supply did not replace domestic output.

If we can keep our capital-investment programs rolling ahead, we shall have better success in taking full advantage of the higher net inflow of goods and money. Capital investment will improve our own productivity and help to maintain our competitiveness. At the present time, business fixed investment remains relatively strong and, indeed, is the main support of the economy. But I am not unmindful of the threats to the investment program posed by falling profits and softer demand in other sectors of the economy.

I believe that national production will start growing again later this year as I have said. But I have to acknowledge that history tells us that employment gains are likely to be modest in the first part of the period of renewed growth. The initial phases of expansion are almost always characterized more by a step-up of productivity than of employment.

The outlook for prices is very difficult to gauge, even on the assumption of reasonably good crops. One has to weigh the effects of the higher wage costs against the downward tendency of many commodity prices and the likelihood of a general decline in the rate of increase of prices in the United States, where domestic cost pressures are much less severe.

It is because our own cost situation is now so dangerous, because inflation is itself so damaging to our own national production, and because the fact of inflation limits one in the choice of measures to counter the slowdown of activity, that I attach great importance to the effort we are making to achieve a national consensus on the necessity of exercising restraint on the increases of prices and incomes in the Canadian economy.

If we all persist in trying to gain at the expense of others, the cost in terms of human welfare will be great, and greatest for the weakest.

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