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CANADA'S ECONOMIC PROSPECTS

Summary of some of the assumptions, conclusions and suggestions contained in the Preliminary Report of the Royal Commission on Canada's Economic Prospects.

Introduction

Statistical forecasts of Canada's future development should be read with great caution. It is certain that events will prove them wrong at least in part. Despite this, such forecasts, fallible though they are, may be of considerable value in showing the problems which may be expected to arise in the future. However, some problems which loom large today will undoubtedly fade into relative insignificance in the years to come while new and pressing problems will emerge which cannot now be foreseen. This would seem to call for flexible policies and a willingness to revise them with changing circumstances.

The realization of Canada's tremendous potential will depend in large measure on the maintenance of a flexible market economy. But it will be equally important for Governments to continue to adapt their role in economic affairs to changing conditions and, in particular, to accept the implications of the effort to maintain a high level of employment.

Assumptions

While the burden of defence will remain heavy, it has been assumed, quite arbitrarily, that there will not be a global nuclear war during the period under review.

There appears to be good grounds for assuming that there will not be another depression of the kind which we experienced in the 'thirties or prolonged periods of mass unemployment.

For purposes of making statistical projections, it has been assumed that there will be no major change in the policies of Government which have a bearing on economic development. This does not mean that present policies are expected to or that they should remain static and rigid.

The Next Twenty-five Years: Forecasts of Growth

Conclusions

It is estimated that the Canadian population will increase from 15,575,000 in 1955 to about 26,650,000 in 1980, assuming an average net immigration of 75,000 persons per annum.

The labour force will grow at about the same rate as the population as a whole. Average hours per week in agriculture are expected to decrease from 55.3 to 43.75 and, in business, from 41.3 to 34.3 in 1980.

It is estimated that the Gross National Product may increase from \$26.8 billion in 1955 to about \$76 billion in 1980, i.e., by roughly three times. The principal variables in this estimate are the growth in population and the increased rate of productivity, particularly for the business sector of the economy. The forecast for 1980 is an average of two calculations based on increases in productivity of 2.5% and 3.25% per annum for the business sector and net immigration annually of 75,000 persons.

If the forecast of the increase in Gross National Product is borne out by events, the average Canadian in 1980, after paying income tax, will probably have about two-thirds again as much income in real terms for his own use as he had in 1955.

While the output of all sectors of the economy is expected to increase, that of agriculture may decline in relative terms from about 13% of the total in 1955 to about 6% in 1980. On the other hand, the output of the resource industries (particularly mining, oil and gas, and electric light and power) is expected to increase from about 10% of the total in 1955 to about 15% in 1980; and the output of secondary manufacturing is expected to increase from about 22% in 1955 to about 25% in 1980.

The percentage of the total labour force employed in agriculture is expected to decline from about 15% in 1955 to about 7% in 1980. The resource industries, primary and secondary manufacturing, and construction, are expected to employ roughly the same proportion of the total labour force in 1980 as they do today. The proportion of the number of workers employed in the tertiary or service sectors of the economy is expected to increase considerably.

The trend under which Canada has been becoming an increasingly urban country is expected to continue. In 1951, 62% of the population lived in metropolitan areas or in other cities, towns and villages with more than a thousand people. By 1980 this proportion may rise to 80%.

Foreign trade will continue to be an extremely important determinant of growth and prosperity of the Canadian economy. But the perceptible decline since the 1930's in the value of exports as a proportion of Gross National Expenditure is expected to continue. Similarly, it is expected that the share of our total exports going to the United States and of our total imports which come from that country will continue to increase.

Agriculture

Conclusions

In recent years land has gone out of agriculture in Eastern Canada and farms have become larger in Western Canada. The number of people employed on farms has been decreasing rapidly and labour productivity has been increasing markedly. These trends are expected to continue for the next 10 years or so.

During the next 10 or 15 years, agricultural output will continue the present shift in emphasis towards livestock products. It is expected that this will result in substantially more hog raising, particularly in the West, and in more cattle raising in all parts of Canada.

The dynamic factors will be further technological improvements, the anticipated growth in the domestic market and the trend towards increasing consumption of meats. It is not expected that foreign market for Canadian agricultural products will increase materially or that imports will increase to a point where domestic producers would be seriously inconvenienced.

The activities of compulsory co-operative marketing boards are probably going to continue to grow.

Suggestions

For the next 10 years or so, substantial irrigation projects, while desirable from the standpoint of local areas, could be harmful rather than helpful to farmers in the aggregate because they would tend to result in overproduction of agricultural products.

There might be merit in imposing some limit upon the number of years in which payments could be made under the Prairie Farm Assistance Act to people who persist in farming lands which have a high record of crop failures over a term of years. If this were done, these people should be helped to re-establish themselves elsewhere.

A broad and comprehensive scheme for a better system of land use should be introduced, including credit facilities to finance consolidation of holdings and the provision of assistance to people who may wish to move elsewhere. Such a major undertaking should be worked out in co-operation with such of the Provincial Governments as may be interested. It should not be attempted without such co-operation.

Farm Credit Agencies might appropriately extend their terms to some extent.

The use of price supports as emergency measures, under the provisions of the Agricultural Prices Support Act, should be administered by a separate Board, the members of which should not be charged with any other duties.

Wheat

Conclusions

The demand for Canadian wheat in world markets over a long period of years cannot be foreseen with any degree of certainty. However, it is expected that the combined export and domestic demand may be somewhere between 400 million and 475 million bushels per annum. This compares with average crops in Canada of 385 million bushels in the decade of the 'twenties, 330 million bushels in the 'thirties, 393 million bushels in the 'forties and an average of 525 million bushels in the 7 years 1950 to 1956. It is the surplus which has been built up as a result of the unusually large crops in recent years which tends to confuse an objective appraisal of the situation. The past 7 years have been the best wheat growing period in Canada's history.

Suggestions

The Wheat Board system of marketing should be continued.

While there is no evidence at present which would support the contention that a permanent reduction in wheat acreage in Canada is necessary, persistent surpluses may indicate the need of some such reduction from time to time. There are several possible approaches which could be followed in this connection and there is no single course of action which would be equally effective under all circumstances.

One approach which might be considered would be to modify the present Wheat Board system in order to inform wheat farmers in advance of seeding not only what the initial price for their crop will be but also the maximum quantities which the Board would be committed to pay for in the coming crop year.

The Fishing Industry

Conclusions

The dominance of this industry in many places where alternative employment opportunities are not readily available makes its output of decisive importance in those areas.

The domestic demand for fish is expected to increase with the growth of population. It is more difficult to say what the export demand will be in the future and two-thirds of the total production of this industry is exported at the present time.

It is probable that the number of people employed in this industry will continue to decline and that the fishing population will, for economic and technological reasons, tend to be concentrated in fewer centres.

The Forest Industries

Conclusions

Since 1929, the net value of the production of the forest industries has been between 5½% and 6% of the total output of the Canadian economy. A very large percentage of total production is exported and for this reason any estimates of future growth must rest in large measure on estimates of the probable increase in foreign demand for Canadian newsprint, lumber, pulp and other forest products.

The value of the output of the forest industries should about double during the next 25 years compared with an estimated tripling of the Gross National Product. Exports should increase considerably in absolute, but not in relative terms. Exports in 1980 may amount to 25% of Canada's total commodity exports compared with about 35% at the present time.

If these estimates of increased growth take place, the total cut of wood in Canada by 1980 will have to be increased by about 60%. Taking the country as a whole, there should be a sufficient supply to meet this requirement.

The competitive advantage which Canada has enjoyed in the past (particularly over United States producers) may tend to be reduced in the future because technical developments have made possible the more extensive use of lower grade wood resources, and mechanization is reducing the labour content.

Suggestions

Technical, scientific and conservation developments are very important if this industry is to continue to be as competitive from a cost standpoint as it has been, and if our forests are to be adequately protected from fire and disease, and efficiently utilized. Research should be actively encouraged.

A greater degree of integration may be needed between the different sections of the industry.

Mining, Smelting and Refining

Conclusions

Over 60% of the total production of this industry is exported. Any estimates of the growth of the Canadian mining industry must therefore rest upon estimates of the probable world demand for metals and industrial minerals and the share of this demand which Canada may be able to obtain. There are grounds for optimism on both these counts.

It seems probable that the production of the mining, smelting and refining industry (exclusive of oil and gas) will increase at a faster rate than the estimated increase in the Gross National Product. Similarly, the exports of this industry may account for as much as one-third of all commodity exports by 1980 compared with one-quarter at the present time.

There will, of course, be wide variations in the rate of world demand for each of the different minerals and in the proportion of this demand which may be met by Canadian sources of supply. For example, considerable expansion may occur in the export of aluminum ingot, iron ore, nickel, uranium, copper and asbestos. On the other hand, the production of gold will probably decline.

A great deal is said from time to time about the desirability of further processing of metals and minerals in Canada and no economic opportunities for doing so should be overlooked. Nevertheless each situation should be examined separately and carefully and we should always remember that Canada's customers in other countries usually have other sources of supply available to them.

Suggestions

As a way in which to come to grips with the question of further processing in Canada, there might be some merit in requiring exporters of ores, concentrates and other semi-processed commodities to obtain export permits which, when issued, would be good for a stated number of years and then subject to review.

The rate of mapping and surveying by the Geological Survey should be stepped up quite considerably.

Further emphasis on metallurgical research and process development would be desirable.

Development of Energy Resources

Conclusions

Total consumption of all forms of energy in Canada is expected to increase steadily over the next 25 years although at a slightly lower rate than the Gross National Product.

The present rapid rate of exploration and development of the oil and gas industry is expected to continue and to increase. However, there may be difficulties to overcome in the near term before adequate markets are obtained, particularly markets in the United States. The logical markets for Canadian oil, apart from Western Canada and Ontario, are the Pacific north west and the north central states of the United States.

By 1980, between two-thirds and three-quarters of Canada's energy requirements will be supplied by petroleum and natural gas, and in both of these commodities, Canada will on balance be more than self-sufficient.

It is probable that Canadian water power resources will also continue to be developed at a rapid rate and that substantial capital investments will be made for this purpose. In this connection, it may be desirable in certain circumstances to permit electric power to be exported for stated periods.

of years after which it would be made available for Canadian use.

It seems probable that activity in the Canadian coal mining industry will continue to decline.

Nuclear energy may begin to appear on a commercial scale before 1970 with the most likely locations being Southern Ontario and the Maritimes. Because of the abundance in Canada of other forms of energy, however, it seems unlikely that nuclear energy for power purposes will become an important factor in Canada as soon as it will in some other countries.

Suggestions

A national energy authority should be established which would be responsible for:

- (a) Advising the Federal Government and, upon request, any Provincial Government on all matters connected with the long-term requirements for energy in its various forms and in different parts of Canada; methods of promoting the best uses of energy sources from a long-term point of view; export policy including such questions as the further refining of oil and gas in Canada and the disposal of by-products; coal subsidies, etc.
- (b) Approving of contracts or proposals respecting the export of oil, gas and electric power, including where necessary or desirable the holding of public hearings in connection therewith.

Taxation of the Oil and Gas Industry

Criticisms

There are three important criticisms of our tax system insofar as the oil and gas industry is concerned, viz:

- (a) Canadians are at a disadvantage vis-a-vis United States operators in the Canadian oil and gas field.
- (b) Certain acquisition and property costs are not allowed as deductions in computing taxable income.
- (c) The method of computing depletion allowances is not as favourable as in the United States.

Conclusion

Despite the importance of the oil and gas industry, it would be unwise for Canada to favour any one industry through tax concessions merely because this is being done in the United States.

Suggestions

Acquisition costs should be allowed as deductions in computing taxable income subject to provisions against pyramiding.

Present methods of computing depletion allowances should be changed. Either a lower rate of tax should be charged on profits earned from exploration and production activities or the depletion allowance should take the form of a deduction from the gross profits earned from production.

A decision as to whether the large integrated companies should be allowed to deduct their exploration and development costs from their total revenues from all sources should depend in some measure upon the rate of depletion which may be decided upon.

Secondary Manufacturing Industries

Conclusions

The secondary manufacturing industries produce 22% of the net output of the economy at the present time. This may increase to 25% by 1980. It is expected that these industries will continue to employ about 20% of the labour force over the next 25 years.

Virtually all of the production of the secondary manufacturing industries is consumed in Canada; very little is exported. This situation is not expected to change.

Real output per man hour in Canada is about 35% to 40% below the United States. On the other hand, output per man hour in Canada is considerably higher than the output per man hour in such other countries as the United Kingdom and Western Germany.

The main difficulty in Canada is the much smaller scale of production in this country compared with the United States.

The industries which are most able to utilize mechanized manufacturing techniques are the ones that are most likely to grow and to compete effectively in the future.

Suggestions

Having in mind the increasing need of Canadian secondary industries to mechanize and to keep their plants modern and up to date, such industries should be permitted to write off their capital expenditures on factory buildings and equipment over much shorter periods than at present. In the timing of any such move the level of economic conditions in the country would of course have to be considered.

Large buyers of equipment, such as governments and railroads, should discuss their programmes with suppliers and spread their purchasing more evenly over the years.

In view of the growing size and complexity of Canadian manufacturing operations, it would be desirable to increase the number of officials in the federal government service having some detailed knowledge of manufacturing industry.

The administration of the Restrictive Trades Practices Commission should be restudied.

Commercial Policy

Conclusions

Every industrial nation has a tariff. Canada is no exception although her economy is a relatively open one and the level of tariff protection in this country has been declining. It seems apparent that tariff protection at some level will be continued. There is no satisfactory way of estimating the true cost of the Canadian tariff in economic terms. And there is no satisfactory way of evaluating the advantages to the economy of having domestic manufacturing industries which can exist only because they have a certain amount of tariff protection.

A moderate increase or decrease in the tariff would not have any appreciable effect upon the average standard of living in Canada. More than a moderate change, either way, is not likely to be acceptable.

There are no grounds for expecting reduction in existing restrictions to world trade in the immediate future.

Suggestions

Under the circumstances, Canada should hold the present tariff line on the average for the time being. However, the tariff structure should be revised and simplified.

The Tariff Board should be strengthened, particularly if it is to carry out an extensive revision of the tariff structure.

The Customs Division of the Department of National Revenue should take on more staff to investigate values for duty. Section 35 of the Customs Act should be applied promptly to prevent dumping.

Reciprocity with the United States on any broad basis should not be regarded as a practical proposition now or in the foreseeable future.

Transportation

Conclusions

The costs of transportation have always posed problems for Canada of a profound and continuing nature and the manner in which these problems have been resolved has had a direct bearing upon our national unity.

The increasing growth of competitive highway trucking is a fact of the greatest significance to the railways. An efficient railway system is a vital necessity for Canada.

Suggestions

A short run solution of the railways' problems may involve Government subsidies in lieu of an increase in grain rates. This does not mean, however, that at some future time some increase in grain rates may not be a practical possibility.

The railways should not be pressed to build new unprofitable branch lines or to maintain existing ones if alternative facilities can be provided.

Owners of motor vehicles should be required to pay a higher percentage of the total costs of highways and streets.

Studies should be undertaken to make sure that the heavier trucks pay their proper share of total highway costs through appropriate taxes and license fees.

Prospective Requirements and Sources of Capital

Conclusions

It is not possible to make an accurate estimate of capital requirements for the next 25 years. However, if the Gross National Product in 1980 is three times as high as in 1955, it is probable that investment in that year will also be about three times as high as in 1955.

There is not an adequate supply of Canadian capital which can be readily mobilized for large scale projects on which no immediate return can be expected.

It would be even more difficult to predict how much foreign capital will be required in the future; inflows of foreign capital have been increasing rapidly in the last two or three years.

Over the next 25 years, our exports should increase slightly more rapidly than imports. If this occurs, we should become relatively less dependent on foreign capital at some time in the future than we are today. However, in absolute terms, the amount of foreign capital invested in Canada will be increased considerably over the years. This capital will be needed.

If such foreign capital is forthcoming, it should not be too difficult to obtain the total amount of capital that will be required except perhaps in periods of very rapid expansion like the present.

Suggestions

Provincial legislation restricting the investments of trustees should be revised.

Federal regulations restricting the investments of life insurance companies should also be revised.

Foreign Capital Investment in Canada

Conclusions

Canada has always welcomed the investment of foreign capital and has benefited greatly and will continue to benefit from the foreign capital that has been invested here.

Over half the total foreign investment in Canada is in the form of "direct investment" (i.e., permanent or semi-permanent) concentrated in the resource and manufacturing industries.

Foreign controlled companies have a dominating position in a number of important industries including: Oil and gas, nickel, iron ore, aluminum, asbestos, automobiles, electrical apparatus, rubber and some sections of the chemical industry.

The amount and influence of foreign capital is of much less significance in such industries as primary iron and steel, food processing, textiles, transportation, public utilities and construction. It is almost non-existent in agriculture. The influence of foreign capital in the pulp and paper industry, while not dominant, is important.

Suggestions

We should like to see more of the foreign capital in Canada invested in bonds and mortgages -- and that part of it which is invested in the resource and manufacturing industries associated with Canadian capital.

There would seem to be three objectives for foreign controlled concerns operating in Canada:

- (a) Wherever possible they should employ Canadians in senior positions, should retain Canadian professional and service personnel and should do their purchasing in this country.
- (b) They should publish their financial statements.
- (c) They should sell an appreciable interest in their equity stock (say 20% to 25%) to Canadians and appoint independent Canadians to their boards of directors.

Incentives should be given to Canadian subsidiaries of foreign companies to sell an interest in their equity stock to Canadians. This could be done by appropriate changes in the income tax law.

Provincial Governments might well consider requiring foreign applicants for mining rights, oil leases and timber limits to take in Canadian partners.

Action should be taken to prevent control of the chartered banks and the life insurance companies from falling into foreign hands. (One way of doing this would be to make shares of such institutions acquired by non-residents in the future ineligible to vote.)

Municipal Requirements and Financing

Conclusions

More extensive and comprehensive planning will be needed in our cities and towns in the future.

The financial problems of the municipalities will have to be dealt with if they are to do the things which an increasing number of urban dwellers will require.

Suggestions

Many municipalities should be able to increase their long-term borrowing in order to finance needed capital expenditures.

Legislation should be passed to permit municipalities to issue non-serial debentures and they should be encouraged to lengthen considerably the term of such debentures.

There may be scope for some municipalities to increase their revenues from real estate taxation by increasing their assessments and/or tax rates.

Senior levels of Government should accept the principle of an assessment on federal and provincial properties in order to compensate the municipalities for the services they provide.

An annual tax on automobiles would seem to be a reasonable way of increasing municipal revenues.

Municipalities should impose adequate charges to cover the costs of specific services, e.g., water supply and sewage disposal.

There is need for a more clear-cut definition and agreement about the functions and facilities which should properly be the responsibility of the municipalities to perform and to provide. If, for example, the municipalities were relieved of financial responsibility for hospitals and some social services, their financial problems would be eased considerably.

The Atlantic Provinces

Conclusions

The prevalence of subsistence farming combined with part-time fishing and logging in the Atlantic region is the main reason for the continued lag in average incomes per capita in that area compared with other parts of Canada.

It is in everyone's interest to reduce the differential between living standards in the Atlantic region and in other parts of Canada if it is at all possible to do so.

Suggestions

The people of Canada as a whole might be willing to assist the people in the Atlantic Provinces in discovering, developing and making the best use of the resources in that area and in addition to provide assistance to those people who might be willing to move to other areas.

The transportation facilities of the Atlantic region are in need of improvement on an integrated basis. This should be the subject of a special enquiry, the terms of reference of which should include a re-examination of the present effects of the Maritimes Freight Rates Act.

The proposal for a broad scale land use classification scheme coupled with a programme for consolidating the holdings of small farmers might well be started in the Atlantic Provinces.

The present subsidy arrangements with the Nova Scotia coal industry should be modified in order to encourage the greatest possible use of such coal in the Atlantic region particularly its use for the generation of thermal power.

The problem of the Nova Scotia coal miners who may be released because of dwindling markets and as a result of the mechanization programme in the mines is a particularly difficult one which will require a sympathetic approach and special treatment. Generous assistance should be provided to the mine workers and their families who may be interested in re-establishing themselves in other industries.

The Federal Government might contribute a fixed sum per annum for a term of years towards various capital projects in the Atlantic region, including improved transportation facilities on the understanding that the initiative in the actual allocation of funds, including the determination of priorities, should come from the Atlantic Provinces themselves.

Immigration

Conclusion

It is firmly believed to be in Canada's interests to encourage people from other countries to emigrate here.

Suggestions

Canada's immigration policy should be a continuous long-term one not subject to swings occasioned by short-term economic fluctuations.

There should be no attempt to place occupational restrictions on immigrants but every effort should be made to get as many skilled people as possible.

The immigration service should be extended to permit a wider dissemination of information about Canada and to facilitate the faster processing of applications of prospective immigrants.

Requirements for Trained Manpower

Skilled Workers

Conclusion

The demand for skilled workers will continue to increase.

It is unlikely that this demand can be filled by skilled immigrants to the extent that this has occurred in the past. Today, Canada is facing shortages in almost every skilled occupation and these are expected to get worse.

Suggestions

The problem of training a sufficient number of skilled workers to meet future demands will need to be approached from several different angles, viz:

- (a) The pay differentials between skilled and semi-skilled and unskilled workers should be increased.
- (b) Existing technical and vocational training facilities should be expanded and new ones established.
- (c) In-plant training programmes should be fostered by governments, skilled tradesmen's groups and companies.
- (d) More efficient use should be made of skilled personnel in industry where this is possible.

The Universities

Conclusions

University enrolments are expected to double within 10 years. This means there is relatively little time in which to expand the present physical facilities and to recruit the additions to the teaching staffs that will be needed.

The heart of the problem would seem to be how to attract to the teaching profession the increased numbers of men and women of high quality that will be needed for this purpose.

Present salaries of university teachers do not bear comparison with the remuneration which able people can command in business, in the professions or in some skilled trades.

Suggestions

Measures should be taken to improve the general standing in the community of the university teaching profession. Such measures should include a very substantial increase in the salaries of university teachers. It is estimated that the cost of increasing by 50% the present salaries of all assistant professors, associate

professors and full professors in Canada today would be \$6 million.

A deliberate and sustained effort should be made to raise the quality and standards of Canadian universities to equal the highest prevailing anywhere in the world. It is perhaps not going too far to suggest that no other single course of action would be so likely to have such an important and fundamental effect upon the long-term economic prospects for Canada. In this connection it is submitted that no Government which bears any share of responsibility for the future economic development of the country can allow a solution of the financial problems of the universities to go by default.

Some limited measure of assistance might be given to the universities by appropriate amendments to the Income Tax Act and the Succession Duty Act.

Conclusion

The various assumptions on which the forecasts and estimates of the Commission are predicated and the various trends which have been identified will be discussed much more fully in the Commission's final report. Other subjects which will be reviewed in the final report will include:

- (a) The difficulties which caused the rate of economic development in some parts of Canada to be slower than in others.
- (b) The important role which Government policies can play in stimulating and maintaining a high level of employment, as well as the limitations of such policies.
- (c) The effectiveness and the limitations of Government policies designed to control inflation.
- (d) The probable long-term trend in our international trading accounts and balance of payments.

It should be stressed that the very considerable economic expansion which is forecast for the next 25 years is contingent on the assumptions which are set forth in the introduction to the preliminary report. The key assumption must be that a global war will be avoided. If this can be accomplished and if the other assumptions are substantiated by events, there should be a remarkable increase in living standards and in the levels of per capita net disposable income of Canadians over the period of the next 25 years.

RP/A

January, 1957.

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