



STATEMENTS AND SPEECHES

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CANADA'S ECONOMIC PREPAREDNESS

Text of an address by the Minister of Trade and Commerce and Minister of Defence Production, Mr. C.D. Howe, to the 65th Annual Meeting of the Vancouver Board of Trade, made on January 29, 1952.

...One of the most significant tests of the health of any enterprise is the provision that is being made for future growth and development. How does the great national enterprise -- Canada -- measure up to that test? The answer is plain. During 1951, one-fifth of our national production was ploughed back into the development of our natural resources and the improvement of our productive facilities. That is the aggregate result of thousands upon thousands of individual decisions made by people in all walks of life in Canada. As an optimist about the future of Canada, I am in good company.

There are, of course, limits to what can be accomplished in these days of material shortages and increased defence preparedness, and the Government's responsibility has been to encourage certain types of investment and to discourage others. Materials, industrial capacity and manpower had to be diverted from less essential industries to defence production without unduly dislocating the economic life of the country. To achieve this objective, the Government has depended mainly upon the use of indirect methods to create an environment in which our economy can best adjust itself to preparedness demands. Some direct controls have had to be introduced but these are relatively few in number, and have been applied mainly in the metals field and at the primary level. In the construction field, the use of steel has been restricted to essential projects. Because of the relatively simple structure of the Canadian economy, this system of handling controls is particularly effective, permitting end-use regulations to be kept to a minimum.

At the same time, the Government has used fiscal and financial measures to encourage the diversion of resources to essential uses, and to check inflation. Restrictions on consumer credit were introduced as early as the Fall of 1950. A reduction was made in the amount of money which could be borrowed under the National Housing Act to finance the construction of new houses. Fortunately, it has been possible to retrace our steps to some extent in the fields of both consumer credit and housing. Bank credit expansion has been discouraged by the Bank of Canada's policy of keeping chartered banks' cash tight, and the banks have also agreed to the suggestion of the Bank of Canada that there should be no further increase in chartered bank loans and non-government investment. The higher taxes

imposed in April of last year have helped to reduce the pressure of civilian demand. Something entirely new has been adopted in the form of a deferred capital cost allowance plan, intended to provide an additional deterrent to less essential capital expenditure by postponing depreciation allowances for income tax purposes.

These policies have been effective. They have done what they were intended to do. There has been a shift in investment towards defence and defence-supporting projects and the development of our basic resources. For example, in 1951 investment in facilities to produce and process strategic raw materials such as copper, nickel, and chemicals, and to manufacture military end-items and components for defence purposes, went up 83 per cent over 1950. On the other hand, there was an 8 per cent decrease in capital investment in wholesale and retail trade, manufacturing of consumer goods, and provision of services. These figures are still preliminary and subject to change, but they show some of the results of the Government's measures to influence the direction of investment into projects of the highest priority.

In this capital investment programme, British Columbia is well to the fore.

As an engineer, I can appreciate perhaps more than most people the imagination shown in the Kitimat development. Not many countries are engaged in diverting a river and building a powerhouse a quarter of a mile inside a mountain through which a ten-mile tunnel has to be cut. When the smelter at Kitimat is eventually completed, it will have one and a half times the capacity of Arvida. What this development will mean to world supply is better appreciated when it is realized that one out of every four tons of aluminum in the world today comes from Canada.

I do not intend to enumerate all the different projects that are under way in this part of Canada, but I cannot omit special reference to the Trans-Mountain pipeline, and the refineries that will be built on the West Coast which have international as well as national significance. According to present plans, steel will be available for the construction of the pipeline in the second quarter of this year and we anticipate no difficulty in obtaining the steel needed to construct the refineries when the time comes.

To sum up this side of my review, I think I am justified in saying that the Canadian productive machine is expanding and being improved as never before in history. And I venture to suggest that never before has investment been directed along lines which hold promise of greater returns in terms of the things Canada and the world needs for a better life and for greater security.

The next test I shall apply to the Canadian economy is the competitive test. In other words, is Canada able to hold her own on world markets? Let me give you a few figures. In 1951, our exports to all countries amounted to approximately 4 billion dollars, or more than 800 million dollars higher than 1950. Not only were our exports to the United States and to the United Kingdom higher, but there was a 57 per cent increase in our trade with the rest of the world.

While some of this increase was due to higher prices, there was also an increase in the volume of goods shipped

out of Canada. We sent more coarse grains to Europe last year, as well as to the United States, and shipped more bushels of wheat, more barrels of flour and more tons of woodpulp and newsprint to our customers than we did in 1950. Three times as many automobiles were sold abroad as in the previous year. In the non-ferrous metals field, we shipped more tons of aluminum, nickel and zinc to help in the defence efforts of our allies.

Here on the Pacific Coast your ports are sharing in this increased volume of export trade. As the Minister responsible for the Canadian Wheat Board, I have been particularly interested in the movement of grain westward from the Prairies. The Pacific Coast always handles its share of the Prairie grain crop but this year, because of the competing demands for transportation down the Lakes and to the Atlantic seaboard, it has been good business to divert a larger share of the crop in this direction. Ordinarily about 60 million bushels of wheat move through Vancouver in a crop year. This crop year, we expect to move 110 million bushels. In addition, the elevator has been re-opened at Prince Rupert and grain is moving through that port.

Oh, I know you may say that the present situation is no indication of Canada's ability to compete on world markets under ordinary conditions. What will happen when the demands generated by rearmament have disappeared? You will not expect me at this time to analyze prospects for Canadian export trade. My only comment is this. The way in which Canada has been able to respond to the needs of her friends and allies for greater quantities of strategic materials is a pretty good indication that this country is an efficient producer.

Although exports attained record size, imports increased even more rapidly in 1951, by nearly one billion dollars in a single year. About three quarters of the increase was due to heavier purchases in the United States. The imports were needed to re-equip our armed forces with U.S.-type equipment, to purchase components for our defence programme, to obtain the increased supplies needed for our heavy investment programme, as well as to meet the requirements of the Canadian consumer.

On merchandise account, imports exceeded exports by some 122 million dollars. Now, this should not be taken as an indication of any basic weakness in the Canadian economy. A substantial deficit on trade account was not surprising in the year of our largest peacetime defence programme and of a new record in capital investment. Without those extra imports to supplement domestic production inflationary pressures would have been greater than they were.

There was also an overall deficit on current account in 1951. Yet, in spite of this deficit on international account, there was no decline in our reserves of gold and U.S. dollars. Why? Because foreign capital found Canada a good investment.

I apply, then, my third test to Canada's economic position. What do non-Canadians think about Canada? The best evidence of what they think is to be found, I suggest, in their willingness to invest in Canada, and in the value of the Canadian currency.

Some time ago, you will recall, there was a heavy flow of capital into Canada from the United States. There

was some fear that this money was entering Canada in expectation that the Canadian dollar was going to be revalued. The fixed value for the Canadian dollar was withdrawn. But the inward movement of capital continued. This was not "hot money" but money which Americans and others appeared to be willing to leave in Canada as a long-term investment.

As for the value of the Canadian dollar, I do not need to remind you that now in a market free from all government regulation, the Canadian dollar is, for the first time since pre-World War II, on a par with the United States dollar.

I come now to my final and most vital test. How is Canada measuring up to her international responsibilities? As Minister of Defence Production let me speak first about the production side of Canada's defence effort, which is part and parcel of the defence effort of the free world.

Briefly, our objectives are these: to provide our forces with the best of modern equipment; to build up our mobilization reserves; to provide facilities capable of all-out production should an emergency develop. The programme is designed to build up our defences on a long-term basis and to strengthen the economic fabric of our country.

In talking about our production effort, I find that many Canadians are inclined to measure it in terms of the number of weapons and tanks and ships that are turned out. Our record in this field shows that we are making satisfactory progress. We are now getting out of the tooling stage in a number of programmes and deliveries in the coming year will be substantially increased. In the aircraft field, the F-86E and the general purpose "Beaver" are coming off the production line in quantity and we are preparing to turn out three other types of aircraft and produce for the first time in our history two types of aircraft engines. Plants are being set up to manufacture aircraft instruments and to supply many components that have hitherto been imported into the country. Over a three-year period, our aircraft programme will amount to some 12 hundred million dollars. Shipbuilding accounts for some 250 million dollars and good progress is being made on the escort ships, minesweepers and gate vessels that make up the major portion of the programme. Sea trials on the minesweepers and gate vessels are expected to be completed by November of this year. Electronics is playing an increasingly important part in the whole armament field. About 500 million dollars will be spent on electronics. Tank and automotive requirements account for another 225 to 250 million dollars and the balance is made up of weapons and ammunition, clothing and miscellaneous types of equipment needed to maintain a modern army.

As I have said, however, actual production is only a part of our defence programme. Short of an all-out shooting war, our requirements and those of our allies for weapons and other equipment are necessarily limited. That is why we must think of our preparedness effort as something other than just preparation for war. It is the strengthening of our defences to the point where any would-be aggressor will realize the folly of such action.

Canadian productive facilities can be quickly expanded in the event of an emergency. In addition, many of our new

productive facilities, which have been set up to fill defence orders, have a part to play in civilian production as well. Where new facilities have been set up we have tried to fit defence work in with the type of production that a firm is currently undertaking so that wherever possible it will fit in with civilian production either now or at some future date. Naturally, this cannot be done in every case, witness the rehabilitation of the Canadian Arsenal's explosive plant at Valleyfield, Quebec, which is strictly a military operation.

On the other hand, many of the components that will go into aircraft and aircraft instruments can be used by industry for other than defence work. In electronics as in aircraft, the general trend is toward a self-supporting industry with a corresponding reduction in the number of imported items. As part of our defence production, we are entering the sub-miniature field for the first time. We will be producing such components as tubes, condensers, resistors, etc., and learning new techniques in the wire assembly of electronic equipment that will be useful in the television and telecommunications field. The experience our shipyards are getting in handling aluminum will stand them in good stead. As you know, aluminum is being used more and more in the superstructure of ships, as it decreases the weight above the water and increases stability as well as payload. In the past couple of decades, corrosion-resistant alloys have been developed and a wider variety of plates and structural shapes are now available. There is no doubt that more aluminum will be used in commercial vessels in this country as more of this strategic material becomes available for civilian use.

The Canadian defence production effort is one measure of the responsibility which this country is taking in international affairs. I could speak also of the participation of Canadian forces in Korea and in the North Atlantic Treaty Organization, but these are matters which lie outside the scope of my present remarks. If you will permit me, however, I should like to acknowledge the indebtedness of the Canadian Government in your own H.R. MacMillan who, despite having personal responsibilities, agreed to act as Canadian representative on the Defence Production Board of NATO and who, in this capacity, has made a very real contribution to the North Atlantic community.

As another example of Canada's participation in the strengthening of the free world, we are taking part in the Colombo Plan to promote the economic development of our Commonwealth partners in South-East Asia. The Plan, as now envisaged, calls for a capital expenditure of five billion dollars over a six-year period. Canada is contributing 25 million dollars during the present fiscal year. The technical assistance side of the picture is important at this stage and we have been fortunate in obtaining both a fisheries and a refrigeration expert from the City of Vancouver to assist Ceylon in some of its more pressing food problems. To help relieve the immediate famine problem in India, we are sending ten million dollars worth of wheat to India. One shipload has already left from this port. We are also arranging a contract for the shipment of 2 million dollars worth of ties from British Columbia to be sent to Pakistan as part of the Colombo Plan.

Still another field of co-operation is through the Commodity Committees of I.M.C. The chronic shortage of strategic raw materials, particularly metals, led to the creation of the International Materials Conference, with

headquarters in Washington. To cope with short-term problems, the Conference has recommended greater conservation and more equitable international distribution. Canada has cooperated in these efforts. Increased production is, however, the only long-term solution and it is here that our resource development programme is so important. We recognize our responsibility to push this work ahead as rapidly as possible as part of our contribution to mutual defence. On the other hand, I have told countries that are most anxious to secure practically any amount of our production, that we would like to see some evidence of their acceptance of Canada as a reliable long-term source of supply should the situation ease, rather than as a residual supplier to be used only during periods of shortages.

By any test Canada is doing well at the beginning of 1952. And yet I believe that there are greater things in store for this country. In a sense we have yet to reap the fruits of our efforts. At the moment the economy is straining to meet the demands of the defence effort, of the investment programme, and of consumers. It is necessary to impose restraints of one kind and another to keep these competing demands from interfering with one another. Eventually, and I hope in the not-too-distant future, we, and our allies of the North Atlantic Treaty Organization, will have surmounted the hump of preparedness. In due course, too, the facilities now being created by the enormous investment programme will result in greater output.

Once again, I look forward to another year of progress and expansion for the Canadian economy in 1952. Present indications are that our investment programme will continue at its current high level. The overall demand for Canadian-produced goods, both at home and abroad, will also be strong. Our defence production programme will show a marked increase in the rate of deliveries as more and more plants get into production on defence work. On the international scene, I have pointed to the increased co-operation on the part of the free nations as one of the most encouraging signs for the future.

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