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LIVING WITHIN OUR MEANS
BY
EXPANDING OUR MEANS TO LIVE BETTER

Remarks by
Mr. J. E. Coyne, Governor of the Bank of Canada,
prepared for delivery at the Annual Meeting of
The Canadian Chamber of Commerce,
in Calgary, October 5th, 1960.

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Delegates attending the Annual Meeting of the Canadian Chamber of Commerce are naturally engaged in a serious study of our economic situation and its prospects for the future. Last year at this time the prospects appeared to be for a period of strongly rising production and employment in North America. Both in Canada and the United States Gross National Product was increasing, employment was rising faster than the increase in the labour force, and unemployment on a seasonally adjusted basis was declining. In Canada, however, the balance of payments deficit, the great excess of imports over exports (including so-called invisible trade, as well as visible trade in merchandise) was increasing, our already very large foreign debt was continuing to grow at a near record rate, and foreign domination of our economic life was the cause of increasing concern.

In the first half of 1960 economic conditions failed to maintain the rate of progress which had been hoped for earlier. Gross National Product rose in the first quarter of 1960 over the fourth quarter of 1959, but the rate of increase tapered off in the second quarter in the United States,

and in Canada, according to preliminary official estimates, the Gross National Product declined in the second quarter. In both countries the seasonally adjusted figures for unemployment have been trending upwards for six months. Employment in Canada was in August 115,000 higher than a year ago, but the labour force had increased by a greater amount, so that the number of unemployed also rose as compared with twelve months ago.

During the past twelve months there has been a marked change in the monetary and financial situation. The rapid rise in bank loans up to August 1959 was followed by a period of decline, especially in the larger loans. The banks' capacity for making loans to small business, farmers and individuals has increased. General loans have risen by nearly \$400 million since the seasonal low point in mid-February. The banks have had surplus liquidity which they have used to increase their holdings of Treasury Bills and Government Bonds to the extent of \$190 million during the same period. The total money supply, consisting of currency in circulation and the deposit liabilities of the chartered banks rose by \$280 million during the period and is now \$150 million higher than a year ago. This is a moderate increase and I hope it will continue to qualify for the description "moderate", but there has been no "tightness" in the monetary situation for many months. Interest rates on securities have fallen almost continuously in Canada since August of last year, (or in the case of longer term issues since January this year) and more recently mortgage rates have also declined. There has been

an ample supply of funds in the capital market to provide for the borrowing requirements of Canadian corporations and local governments, while the Federal Government has incurred little or no increase in its bonded debt except in the field of Canada Savings Bonds. Corporate bond issues have been smaller than might have been expected, but not because of any difficulty in raising funds. While some provincial and municipal governments have continued to add to the nation's foreign debt and their own already hazardous foreign exchange liabilities by borrowing large sums repayable in foreign currency, this too was not for any lack of funds available to them on reasonable terms in Canada.

Our balance of international payments improved somewhat in the first quarter of 1960, but the second quarter recorded an adverse balance slightly greater than in the corresponding period a year ago and exceeded only by the all-time record high figure for the second quarter of 1957. Exports have been relatively strong in the last two or three months and it is possible that during 1960 as a whole exports of merchandise will improve relative to imports by three hundred million dollars, but in the meantime the deficit on account of interest and dividends, services and other so-called invisible items in our balance of payments, which amounted to \$1,050 million for the year 1959, has been running ahead of a year ago.

We cannot expect to go on indefinitely buying goods and services from abroad in amounts greatly in excess of our exports, that is, buying

on credit on a scale which requires large further increases in our foreign debt. We must therefore face the prospect of suffering at some stage a major restriction in the supply of goods and services available for consumption and for expansion of capital facilities in Canada, -- or else we must set about providing for ourselves an amount of goods and services made in Canada through the employment of Canadians, in replacement of the supply from outside upon which we have been so heavily dependent for the past decade. The sooner we can make substantial progress in this direction, the stronger and more secure will be our economic future and national integrity.

Earlier this year, the President of the Canadian Council of the International Chamber of Commerce, Mr. Paul Bienvenu, delivered an important address in this province under the title "Canada at the Crossroads", in which he warned of the vulnerability of our position through our reliance on foreign capital, and asked the pointed and very timely question, "Shall we allow Canada gradually to be absorbed by other and larger economic interests?". Speaking of the whole sweep of Canadian history and development of a national culture, Professor W. L. Morton in his presidential address to the Canadian Historical Association last June said "It is an accomplishment worthy of a better end than absorption in another and an alien society, however friendly and however strong in its own ideals." But we are now at one more of the critical crossroads

in our history, perhaps the most critical of all, when economic developments and preoccupation with economic doctrines of an earlier day are pushing us down the road that leads to loss of any effective power to be masters in our own household and ultimate absorption in and by another. The fact that the modern word for "absorption" is "integration" or even "economic integration" does not alter the essential nature of the result.

The importance and urgency of dealing with the balance of payments problem are re-inforced by the present situation of large-scale unemployment. "Living within our means" as a rule of life can be consistent with living better, because we can increase our means through the putting to use of presently available but unemployed resources.

For a number of years total expenditures of all economic sectors of the nation -- business, government and private consumers -- greatly exceeded our actual production and indeed also exceeded the potential of our production from our then existing quantity of productive facilities. This year our total expenditures may be exceeding our actual production by almost as much as in recent years, as shown by the deficit in our international payments, but they are no longer seriously in excess of our potential production if only the productive facilities now unemployed --

physical plant and equipment as well as human labour -- could be brought into production. The excess of our international payments over our international receipts represents about 4% of our Gross National Product. Our annual average of unemployment amounts to approximately 6% of our labour force, and there is unutilized productive capacity in our factories and service industries. Overcoming the deficit in our balance of payments could increase employment by 250,000 (which is 4% of our labour force) and reduce unemployment to as low a level as we have known in modern times.

The provision of jobs for those not now employed will, however, only result in an increase of exports or decrease in imports sufficient to balance our international accounts if we make that our national goal and bend all our efforts to that end. For increased employment to have such a result, the main endeavour, the one with the biggest potential and chief hope of success, must be in the direction of replacement of imports by increased production in Canada to meet our own requirements.

In this connection, there appears to be no practical possibility of quickly increasing employment in our export industries to any substantial extent, certainly not by 250,000 persons. Perhaps such an increase could be achieved gradually over a period of years, but in the meantime the number of persons requiring jobs will increase by a further 150,000 a year or more..

The number in our labour force is likely to go on increasing rather more rapidly in Canada than in the rest of the western world, because of immigration and our relatively high rate of natural increase of population, and because for some years the rate of participation of women in our labour force lagged behind the comparable rate in other industrial countries and now is evidently tending strongly upwards. Such an increase in our labour force can bring about a gratifying increase in our total production and consumption, and in everyone's standard of living, if and only if suitable kinds of production and employment are enabled to expand.

Even over a period of years, a substantial increase in employment in export industries as a whole is at best only a possibility; it cannot be counted on as having a high degree of probability. In agriculture, which is still the most important employer in the field of export industries, the trend of employment has been downward for years, and with increasing mechanization seems likely to continue to decline. Employment in other resource industries which provide our major export products is not likely to show a strong upward trend. We naturally hope, and with some confidence, that resource development throughout Canada will continue to grow, particularly in the less developed areas, and that exports will show some degree of growth, but we should recognize that we cannot count upon a sizeable over-all increase in employment in these fields -- other than the temporary employment provided when construction of new facilities is being carried on -- and certainly

cannot count on it reaching anything like the magnitude required to take care of our present unemployment problem or future growth of the labour force.

Serious progress can be made in providing work for the growing labour force and reducing the number of unemployed, only through increasing employment in the production of goods and services for Canadian use and consumption. Part of this would be a net addition to our total volume of productive facilities as well as to our consumption and standard of living, but an important part would be a substitution of Canadian products and services for products and services which in the past decade have been imported, and financed by borrowing abroad or selling off Canadian property and enterprises to non-residents.

The point I wish to make today is that in order to live within our means, which will be forced upon us sooner or later whether we like it or not, it is not necessary to reduce our production or growth or restrict our standard of living. We can achieve our goal while increasing our total production and employment by altering the relative importance of the various production elements within the Canadian economy, that is to say, by facilitating a change in our economic structure.

In times of relatively high unemployment there are apt to be demands from some quarters for rapid monetary expansion, easy credit, more debt and printing press money, and deliberate large-scale deficit financing. The idea underlying such proposals, carried to the degree

which is sometimes advocated, must be that somehow these measures will enable a desirable goal to be achieved without difficulty, or effort, or cost. Such an approach is part of the easy-money, soft-living, restricted-working, borrow-from-the-other-fellow kind of philosophy which if allowed free rein will undermine our economic stability and progress and our national independence.

In my view our present unemployment cannot be cured by the blunder-buss methods of over-all large-scale monetary expansion and deficit finance. The approach to the problem of unemployment needs measures which are specifically pin pointed or directed towards creating employment in Canada, and stimulating production in Canada, rather than merely handing out money indiscriminately for possible spending on further imports, or encouraging by unsound credit practices more and more people to go more and more deeply into debt.

It is an inescapable fact of life that unemployment is not only a personal tragedy for those directly concerned but a very real cost to the entire national economy. The unemployed are not producing and the nation is the worse off by reason of that. Who among us should escape his share of that loss?

To maintain the incomes of the unemployed is and must be a burden on those who are employed, who cannot help but share the national costs of unemployment, and likewise the costs of stimulating increased employment.

There is no easy way, no trick of magic or sleight-of-hand to avoid this issue. Financing public expenditures by printing new money does not change the

magnitude of the burden or the cost, it merely alters the method by which that cost is distributed, and by its effect on prices imposes the most unfair, the most disruptive of all methods of cost-sharing on some members of the community. Large-scale deliberate government deficits financed by public borrowing likewise are merely one method, and by no means the most satisfactory method, of achieving a sharing of the costs involved. The best way, I suggest, is to recognize openly the need for sharing the burden of the adjustments that have to be made, and the need for adhering to the method of pay-as-you-go to the maximum degree possible, in our fiscal and monetary arrangements no less than in our private lives and business arrangements.

There are three main avenues of attack on the problem of unemployment. Each can be financed on a straightforward pay-as-you-go basis, or each can be the excuse for inflationary methods of finance which obscure the real costs and real burdens and at the same time ensure that such costs and burdens shall impose the greatest sacrifice on those least able to bear them. The first in point of preference is the encouragement of increased production in the private sector of the economy. Methods to be used in this field arouse considerable controversy, and time is required for maximum results to be achieved even from the application of agreed methods. The second is one on which we usually rely more heavily for short-term results, namely, increased employment on public projects of all kinds. Thirdly, while plans

to increase both private and public employment are being put into effect, the costs of unemployment are shared by some form of income maintenance payments to those who at any given time are unemployed.

The point I want to stress is that it is unnecessary as well as dangerous to look to inflationary finance as a method of dealing with unemployment or other economic problems and that there is no reason why sound finance should prevent us from achieving our goals with respect to employment or the balance of payments or other matters.

There is no financial impediment to the achievement of our economic and social goals. Sound finance, based on the principle of living within our means, does not impede any desired distribution of those means or restrict any feasible increase in those means. Whatever degree of assistance the people of Canada decide to provide to the unemployed -- even up to the point of guaranteeing them incomes equal to that which they had when they were employed, if that should be the decision of the community -- can be provided without resort to large-scale government deficits or monetary inflation. If it is not done, by appropriate methods, it must be because the community as a whole does not wish to achieve the goal in question or cannot make up its mind as to which of several methods is the most desirable from the point of view of doing the most good and the least harm.

Similarly as regards the problem of providing employment for the unemployed on direct government projects. There is no financial obstacle to governments at all levels expanding their operations so as to provide useful and productive work for the entire number of the unemployed, including suitable work for the skilled as well as the unskilled, the clerical and technological as well as manual workers. Naturally most people would prefer to see the rise in employment take place in the field of private industry producing goods and services for consumption by the people in accordance with individual preferences expressed in the usual manner of purchasing. But if and to the extent that it is found necessary or desirable to provide employment directly through government projects, whether national, provincial or municipal, suitable financial methods can be found to meet the cost and share the burden without resort to large-scale deficit financing or monetary inflation.

And finally, there are many different ways, some of which have been in force for a long time, by which to stimulate greater production by Canadians in the field of private enterprise and to provide incentives for Canadians to buy Canadian-made products and services instead of importing those made or provided elsewhere. These various methods may require an increase in government expenditures or a decrease in the yields from some existing kinds of taxes at existing rates, but this does not mean that they must lead to a massive increase in government deficits. Some of them would in fact bring in greater revenues to governments. Moreover, there may be other government expenditures,

of less use in promoting production and employment, that could be decreased, and there are numerous ways of increasing the revenues of governments on all levels which would render large-scale government deficits and rapid growth of debt as unnecessary as they are undesirable.

To adjust our activities in such manner as to increase the production of goods and services for the Canadian market is of the highest importance, both because it offers the greatest hope of continuing the expansion of the Canadian economy and improving our standard of living over the long run, and because it is only by this means that a serious attack can be made on the heavy deficit in our international accounts. Unless we can solve that problem our future must be considered bleak indeed, both economically and in terms of maintaining national sovereignty and political independence.

The heavy deficit in our international accounts each year is in part the cause and in part the result of the great increase in our foreign debt. Until this year, we had for six or seven years been trying to carry out a capital investment program which was larger than our own actual or potential capacity to provide new capital out of our own savings, which put too much emphasis on rather volatile forms of economic activity to the detriment of some of our more stable industries. This may have been our own fault, or it may, in part at least, have been forced upon us by the unimpeded inflow of foreign capital on the part of foreign companies and investors who thought they saw golden opportunities to undertake various projects in Canada or to buy up existing

Canadian companies. Massive imports of capital put the Canadian dollar at a premium and induced massive imports of goods and services. The entire economy was put under strain, and the structure of employment and production was distorted in a way which was inimical to steady growth and stability. The result, in my opinion, was to create not more employment but less, when averaged out over the cycle of boom and recession, and to create many difficult problems for the future, which are at the bottom of much of our present troubles.

We should, for our own sake, live within our means and increase our means by our own efforts. Large-scale importation of capital from abroad may be useful to a backward or underdeveloped nation striving to make a sudden jump from a primitive to a modern economy. But a country which has reached Canada's stage of development can make better progress, and retain more control over its own destiny, by relying on its own savings to provide the necessary capital. We do in fact generate savings at a rate as high as any advanced nation. If we want to increase our rate of savings further, it is in our power to do so. Many of us could save more, and borrow less, and build a more secure future by so doing. But if we cannot or do not choose to increase our own savings, we should not look to the savings of Americans or English or Swiss or Belgians, which are in proportion to national income no higher than ours in the first place, to do for us what we will not do for ourselves. Let the surplus savings of the world be used to help the needy countries of Africa, Asia and other parts of the world. We in Canada will do ourselves more lasting good if we stand on our own feet in this matter of savings and investment.

Some pessimistic observers have suggested that the policy of relying on our own savings for economic development and the related necessity of rectifying our international position by substituting domestic production for imports would require the Canadian people to pay a price much greater than they would be willing to pay. In point of fact, we do not have the choice. We cannot go on increasing our foreign debt the way we did in the "Fabulous Fifties". We will be forced by one means or another to cut our coat according to our cloth, but we can increase our own production of the cloth in substitution for that previously imported on credit. Moreover, this is what we should do in our own long-run economic interest and for other reasons -- to maintain our national identity and to have reason to be proud of our own achievement.

For my part I am sure that our course as Canadians will be today what it has always been in critical periods of our history -- to remain Canadians, to stand on our own feet and manage our own affairs, and provide desirable forms of employment for our own people regardless of purely economic considerations or mere bookkeeping comparisons with other countries. We must continue to import in reasonable volume, of course, just as we should make all reasonable efforts to increase our exports, but we cannot and should not continue to import vastly more goods and services than we export. We cannot import in unlimited volume various kinds of goods and services which are beyond our ability to pay for merely because they appear to be cheaper than the cost of producing comparable goods and services in Canada.

Throughout our history the narrowly economic approach to national problems has been qualified in important particulars affecting

Canadian development. If it had been otherwise, Canada would never have come into existence, nor could Canada have grown and developed on any such basis.

As a nation, we are a political structure of a number of diverse economic regions, each of which, if a purely cold-blooded lowest-cost economic point of view had dominated us, would have had to maintain the most intimate relations with other economic regions outside of Canada -- and each of our parts would have remained a primitive frontier area of small population.

The act of federation committed the Canadian people in their various regions to the assertion of the paramountcy of political, cultural and spiritual values over purely economic values. Our national pride springs from that decision. Nevertheless, we have achieved what is generally regarded as the second highest standard of living in the world, -- we had attained this position long before the great increase in foreign investment in Canada during the fifties -- and there is no reason why we cannot continually increase that standard of living and maintain our relative position in the world without continuing to increase our foreign debt and without importing more goods and services than we export.

Throughout our national life we are constantly doing things which from a strictly economic point of view would seem to be more expensive than taking the opposite course of action. One very simple illustration is the way in which action is being taken to deal with the

problem of seasonal unemployment, that is, the falling off in employment in certain seasons of the year, which is particularly pronounced in Canada because of our climate, our geographical position and the wide separation of our various economic regions. Obviously, in the case of many industries employment in winter costs more than employment in summer, yet most people agree that it is desirable to maintain employment in winter and to shoulder certain costs in that connection. We maintain our railroad system in order to have transport and communication between the several regions carried on within Canada, although it would certainly be cheaper from the bookkeeping point of view to send most of our inter-regional travellers and freight southward through the United States and eliminate large stretches of the trans-Canada railway lines. We pay substantial sums each year to maintain Canadian radio and television facilities rather than to rely on the cheaper and indeed costless services which are offered to us from the United States. We have always maintained tariffs and regulations designed to ensure that certain types of production for the domestic market shall not be entirely provided from outside Canada.

There is in my view a further compelling reason, which is becoming more important every year, why it is essential for the

Canadian economy to produce the highest possible percentage of goods and services within Canada rather than rely on imports financed by increasing our foreign debt. The pace of technological discovery and development is constantly accelerating. So far most of the discovery and development have been taking place outside our borders. Similarly the process of utilization of technological progress, often summed up in the word automation, is increasing rapidly. Automation is sometimes opposed on the short-sighted view that it creates unemployment in those industries which are automated. The answer, of course, is that automation reduces costs and helps to raise the standard of living and that the decrease of employment in one field is offset and more than offset in other fields and particularly in the field of producing automatic machinery. In the case of Canada, however, we will not enjoy this offsetting advantage unless we take steps to that end. The danger is that the progress of industry and advanced technological techniques outside Canada will result in growing unemployment in Canada, while the related increase in employment in the highly-skilled, better-paid trades producing machinery and capital goods takes place outside Canada. This is not a theoretical view or an exercise in crying "Wolf" -- it has actually been experienced already in a number of Canadian industries.

If our population and our employment are to continue to grow, we must concentrate on producing a great part of all the capital goods, the productive machinery, the highly processed chemicals and other new materials, that we are going to use in this country.

The recognition of these fundamental requirements in Canadian economic progress, and the adoption of suitable methods of meeting these requirements, will not impose an intolerable burden, and perhaps very little of a burden at all on the people of Canada -- certainly much less than the deprivation we will otherwise have to face as a result of falling behind the progress of the rest of the world. The savings generated by the Canadian economy each year, and the size of the discretionary income of the Canadian people who can choose what they want to spend it on are such that we can afford to build whatever kind of economic structure we want, and to provide and maintain the kind of way of life and national satisfactions that we as Canadians hold dear.

I am not raising arguments or getting into the argument about free trade versus protection, about the virtues of international specialization, because they are beside the point. Just as a family whose fortunes have prospered may decide -- and usually does decide -- to buy a motor car

costing more than the cheapest or most economical one on the market, because it offers them more benefits and satisfactions than the pure low-cost transport of persons from one place to another, so a modern nation may decide to supply itself with a wide variety of modern technical equipment and manufactured goods and technical and cultural services from domestic sources, to pay, in other words, for a kind of domestic industry and a variety of employment opportunities and cultural outlets which otherwise it would not have.

It is conceivable that the average standard of living per head of population would be greater in Canada if we had never produced anything but fish, or furs, or wheat, or lumber, or metals, but the population would only have been a small fraction of what it is today, and from generation to generation there would be increasing discontent at the lack of variety of outlets for the talents and tastes of young men and women coming to maturity. If we do not want or do not think we can get interesting modern kinds of job-opportunities for ourselves, let us nevertheless think of our children and grandchildren. A nation cannot truly call itself a nation or provide a satisfying way of life to the many varieties of people within its boundaries unless it can achieve full diversification of its economic activities. Primitive peoples, backward nations, seriously underdeveloped nations by modern standards obviously cannot do this for a long time to come. Canada can do it now.

In order for Canada to do this we need, in the first place, to improve our educational facilities immensely, we need to have more universities and technical institutions and training establishments of all kinds, and many times as many students and workers in training as at present. It is not good enough that the percentage of young people receiving advanced education here should be twice as great as in England, because our percentage is less than one-third as great as that in the United States, and the English no less than the Russians and other people are making strong efforts themselves to catch up with the American figure, while the Americans in turn are striving to improve further in both quantity and quality. We must provide the basic educational background for all our people, and the laboratories and engineering facilities for scientific and technological research and training here in Canada. And we must provide industrial jobs of every description -- in production, in transport and communications, in engineering and scientific work, in many service industries -- for those who are able to acquire the necessary training and put it to fruitful use. This is not to ignore agriculture, which is more and more becoming an industrial occupation requiring and utilizing the most advanced technology.

Why have we got into the serious difficulties which now confront us? One fundamental reason, I believe, is that we were inclined to keep our eyes fixed on the past, and thought we could go on developing profitably and easily without too much trouble by doing more of the same thing as we had done in the past, rather than working for new avenues of development, new

ideas, new projects, in line with the trends opening up for the future in the more advanced parts of the world.

No doubt this was at bottom our own fault, but I have also no doubt that our judgment has been clouded and our initiative stunted by the fact that so much of the more advanced sections of Canadian industry is controlled and dominated by foreign enterprises.

"No other nation so highly industrialized as Canada has such a large proportion of its industry controlled by non-resident companies," to quote the restrained language of a Dominion Bureau of Statistics publication. I prefer to put understatement behind us and suggest that no country in the world with anything like our relative state of development has ever had such a degree of foreign domination, or even half or one-quarter the degree of foreign domination.

The record is public but still not well known or fully comprehended. By 1956 the whole of our manufacturing industry was 48% foreign-owned and 52% foreign-controlled, and in many important types of manufacturing the foreign predominance runs from 75% to 100%. In petroleum and natural gas the percentages for the industry as a whole were 65% foreign-owned and 80% foreign-controlled. In mining and smelting, 54% foreign-owned and 58% foreign-controlled. These figures were much higher in 1956 than in 1926, and judging by the frequent reports of further Canadian companies being taken over by foreign companies and the great inflow of capital for direct investment in Canada by foreign companies in the past four years, the percentages as well

as the absolute amounts must be still trending higher. By far the lion's share of the foreign control rests with American companies, the growing predominance of which has been a marked feature of our postwar history.

The preponderance of foreign ownership in many industries has created great difficulties for the operation of monetary policy in this country. Whenever inflationary conditions develop and monetary restraint is needed its application may bear more heavily on domestically-owned businesses than on foreign branches or subsidiaries because the latter have access to financing abroad. More generally, many observers in Canada have spoken of an unfair incidence of competition of big business against small business, which usually means of foreign-owned businesses against domestic businesses, with smaller Canadian businesses under a handicap in relation to technology, supplies of materials and access to markets as well as finance. Unfortunately their suggestions for remedial action often take the form of asking for generally easier credit in Canada and an expansion of money supply in the banking system. Easy money will not solve these problems any more than it will solve the related problems of unemployment and the balance of payments, but I believe that further analysis of these problems is needed and that other methods of dealing with them could well be explored.

Ours is in many important lines a branch plant economy. One result has been that research has been slow to develop in Canada; research facilities

have been provided elsewhere and the Canadian industry allowed to copy the results achieved by the parent company, sometimes after a time lag. Rarely is there genuine Canadian participation in the introduction of new ideas or the development of new products and projects. Important management decisions are for the greater part of our industry taken outside Canada by foreigners, whether they be Americans or Europeans, and taken for reasons which have little or nothing to do with the outlook or aspirations of Canadians. In most of such companies, Canadians are not encouraged to have new ideas, cannot put their ideas to the test, and cannot assume responsibility for proving and carrying out their ideas.

The Canadian automobile industry has never built a Canadian automobile designed to meet special Canadian conditions or incorporating Canadian ideas whether good or bad, but has been content to turn out copies of an American automobile, planned, designed, engineered and advertised in the United States in accordance with American ideas, and, as to 40% of its value, produced in the United States. By contrast, in many European countries, a much greater degree of domestic participation in the automobile business has been achieved, as is the case also in Australia which has only half our population and somewhat less than our purchasing power per head of population.

This same picture can be repeated over and over again in comparing Canadian industries with similar industries in various European countries. Yet the high purchasing power of the Canadian people means that the Canadian market for any product is in fact greater than that of almost any European country except Britain, France and Germany, and challenges comparison and in a number of cases exceeds the market even in those countries. It is not through lack of a big enough market for the realization of the economies of mass production and of technological research that we have failed to develop in Canada domestic industry of a sufficient size and of a sufficiently Canadian character to satisfy our needs.

In 1955 I expressed the hope, which evidently was much too optimistic, that the future would in fact see an increase in what I called the Canadianization as opposed to the Continentalization of our economy. I was looking ahead over a period of twenty years, it is true, but in the intervening years the trend has been the reverse of what we would like to see.

The picture today is to a great and increasing degree that many of the most advanced fields of secondary industry -- including electronics and all that this may develop into in the future -- are dominated and controlled from abroad, with production and exports restricted and managerial initiative stunted in Canada as compared with what they would be under Canadian-oriented management. Canadians

do not even know the state of affairs of many of their major industries as these are owned by foreign corporations which do not find it necessary or desirable to publish statements of accounts for their Canadian subsidiaries. Canadians cannot participate in the share ownership of most of these industries any more than they participate effectively in the management or in technological development.

The matter of applied research in industry is absolutely vital to our economic future. It has been estimated that private industry's expenditures for research and development in Canada are only one-quarter as much, in proportion to national income, as expenditures by industry in the United States or in England. Government expenditures here are more nearly comparable with those of governments elsewhere, thanks mainly to the creation and expansion of the National Research Council and Atomic Energy of Canada Limited and its forerunners, but we should not be forced to rely on governments so much in this country to compensate for the deficiencies of branch plants and subsidiaries of foreign parent companies.

American and other foreign capital and management have no doubt given us some benefits which we would not otherwise have obtained in the same quantities or so soon, but rarely the benefit of self-development. We can see now that we would have been better off to have foregone some temporary easy benefits, as they seemed, and instead learned to manage our own affairs

as best we could and been content with the result.

A reasonable degree of international investment is undoubtedly a good thing, and should continue to exercise a fertilizing influence. Some underdeveloped countries, indeed, must have more foreign capital assistance than they are now getting. On the other hand, the United States was, I think, fortunate in that foreign capital and particularly foreign management, contrary to a myth which is popular in some quarters, did not play a substantial or important role in American development -- certainly not after the days of the early railroad-building era. Canada does not need to emulate an imaginary American example.

The process of the growth of foreign domination in Canada has gone on for so long that perhaps we have become blind to it; we either take it for granted or we fail to realize what proportions it has assumed. No other country would, in relation to its own affairs, have regarded such economic dependence as desirable. And whatever benefits it may have conferred in the past, the danger now exists that it may produce stagnation and a falling back in the parade of modern progress for Canada and for the people of Canada.

I know that more and more Canadians are becoming convinced that there must be a halt in the process of foreign economic penetration in Canada, and a move in the opposite direction. Most would agree, to paraphrase the wording of a famous resolution, that the degree of foreign domination, and especially American domination of Canadian economic life has increased, is increasing, and ought to be diminished.

To express views such as this does not involve being anti-American or unfriendly to foreigners. In the case of most foreign countries, and certainly the United States, they and their peoples have a unique and valuable contribution to make towards the variety and richness of life in the Western world. To like a person, to enjoy doing business with him on equal terms, to visit with him and have him as a guest -- these are fine. But no one enjoys having even the most likeable of guests -- as in certain fields of corporate enterprise -- come in such numbers as to swamp the family, assume charge of the household, take a lion's share of the income, and remain indefinitely, decade after decade.

A start towards improving the situation would be possible if foreign companies which have large subsidiaries in Canada -- particularly in those industries which are more than 50% controlled by foreign companies -- and which have been here long enough to become firmly established -- would undertake as a matter of policy to divest themselves of their corporate ownership of the stock of their Canadian subsidiaries. This could be done either by distributing its stock in the Canadian company to the shareholders of the foreign company, even though they may be largely or entirely foreign investors rather than Canadian, or better still by selling such stock on the public market. In either case, once the stock is out of the hands of the parent company and in the hands of the numerous investors, it is available for purchase by Canadians. Moreover, once that is accomplished

the management, from the board of directors to the chief executive and on down, can much more easily be Canadianized, and the future financing of the company can be done entirely in Canada and be responsive to conditions in Canada in the same way as purely domestic enterprise.

I assume that even those who are content with the present degree of foreign domination in Canadian industry would not be happy to see our banking system entirely or even largely owned and controlled by foreigners, or our trust companies or other financial institutions, or our life insurance companies. A few years ago it seemed that life insurance companies were indeed going to be bought up and controlled by American interests, and action was taken to prevent this. We would not favourably regard the development of foreign control and management of the Canadian Pacific Railway. Why then should we have a different view with regard to so many other important sectors of Canadian industry?

As you know, the Bank of Canada charter provides that all its directors and its senior officers must be Canadian citizens normally resident in Canada. Somewhat the same condition, although not so strict, applies in the case of the chartered banks. The Air Transport Board takes care to see that companies licensed to carry on air transport in Canada must be owned and controlled by Canadians, and a similar policy is followed in greater or less degree by the Board of Broadcast Governors in relation to radio and television stations in Canada. Why should not all Canadian corporations, or at least the larger and more important ones, have their

entire board of directors chosen from Canadian citizens? The cynics may say the directors would merely be mouthpieces for foreign owners. I am sure this is not true. The placing of Canadian citizens in positions of real responsibility in the direction and management of Canadian corporations, and making them accountable to Canadian public opinion, particularly where the shareholders were not confined to a single foreign parent company, might have a material effect on the outlook and activities of those corporations, and make them much more responsive to the requirements of Canadian life.

There are, of course, a number of fields of industrial activity in Canada where the companies are mainly Canadian in character. These are predominantly companies producing for the Canadian market in competition with imports from the United States and other countries. We are told that they cannot progress farther than they have, because the Canadian market is not large enough to bring about lower costs of production, or because styles must be changed once or twice a year and these must be copied from others which have already appeared in foreign countries, or because there is a lack of applied research and technical skills in Canada which would make new processes available to the Canadian industries to enable them to compete with new developments elsewhere, or for some other reason of a negative character. I suspect that important sectors of Canadian domestic industry are often inhibited by the feeling that if they try to expand further or branch out into new products or adopt the most advanced techniques, such venturesomeness will run into