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"UNEMPLOYMENT IN THE CANADIAN ECONOMY"

Remarks by
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I am going to take advantage of this opportunity to talk about both the Bank of Canada and its wholly-owned subsidiary, the Industrial Development Bank. These two banks have the same Board of Directors, the same Executive Committee and the same chief executive officer, but the major work of management of the Bank of Canada is carried on in Ottawa and the major work of management of the Industrial Development Bank is carried on by the General Manager and his staff at the operating head office in Montreal and by the regional offices throughout the country.

The two banks have in common the aim of encouraging and assisting the expansion of the Canadian economy on a sound and sustainable basis, the growth and development of Canadian industry, a rising level of employment and a rising standard of living for all Canadian citizens from one end of the country to the other ---so far as such goals can be assisted by monetary and credit action. It must be recognized, however, that monetary and credit action is not enough, that such action can only complement and assist more direct measures which are taken by governments, business and private individuals, ---measures specifically aimed at increasing production and employment, and at other goals of economic, social and political organization.

In the case of the Bank of Canada, the central feature of its operations is to provide the chartered banks over the years with a rising not able to obtain the necessary capital from outside the business by selling a bond issue or a stock issue in the market, or to raise funds in other ways from private sources.

As the facilities of the Bank have become better known the volume of its loans has grown at an accelerating pace. Over the past five years the annual number of loans made to new borrowers has quadrupled, and this progress is continuing. New loan approvals during the first three months of the present fiscal year were running 20% ahead of the corresponding period last year. At the last fiscal year-end the Bank had loans outstanding or committed for 1,966 industrial enterprises, of which 44% by number were for amounts of $25,000 or less.

The Bank now has 13 offices throughout the country and a staff of 263 persons, including credit officers, engineers, lawyers, accountants, insurance specialists and other employees, both men and women. The Industrial Development Bank does not make the usual kind of bank loan for current operating purposes. It makes capital loans for a fixed term. Wherever possible it makes a special investigation of the industrial potential of the applicant's enterprise, including the plant layout, the methods of production, the methods of accounting and cost control, the market potential and selling outlets, and all other matters which may be important in the final judgment as to whether the business will be able to operate at a profit. This is the fundamental question--the future profitability of the enterprise.

It is a matter of regret to us that only 15 loans have been authorized to industrial enterprises in Newfoundland in the past two years. The slowness in developing our business in Newfoundland is not due to any reluctance on the part of the Bank to investigate projects which could be the subject of an application for financial assistance. Perhaps there is not yet wide enough understanding of the facilities which the Bank can provide. Our lending officers are frequently in Newfoundland---the occasions are advertised in advance---and the availability of our facilities is advertised periodically in Newfoundland papers. We have continuously under study the possibility of opening a full-time branch office in St. John's, but have not yet felt it could be justified by the volume of business, either current or in prospect.

The Bank of Canada does not have the satisfaction of participating directly in the business life of the community in the way that is open to the Industrial Development Bank. The Bank of Canada cannot make a loan to any business enterprise. Its chief method of operation is to buy Government securities in the open market when it wishes to expand the cash reserves of the banking system. In addition, it can make short-term loans to the chartered banks and provide short-term credit to recognized money market dealers at a time of temporary stringency in the money market. It can advise and assist the Government in the management of the public debt, in which connection it acts as an agent, the fiscal agent of the Government. The Government itself is responsible for deciding on the terms, timing and general methods of handling new Government loans. The Bank can to a limited extent exercise a steadying influence in securities markets, more particularly in the Government bond market, although it cannot for that purpose compromise its basic function of providing the banking system with a supply of cash reserves which is adequate but not excessive.

From some of the discussion in recent months one might get the impression that there had been a restriction of bank credit in Canada, and a decrease in the money supply, and that credit-worthy enterprises were unable to obtain their requirements in capital markets or from the banking system. Such conclusions would not be in accordance with the facts.

The total volume of bank deposits plus currency in circulation in Canada has risen strongly since last summer and for the year 1960 as a whole showed an increase of more than 5%. During the same period the corresponding increase in the United States was less than 3%. The increase over the past four years in Canada has been over 20%, as compared with less than 14% in the United States.

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So far as we can ascertain, there was no shortage of bank credit for business purposes in Canada at any time in the past year. During 1960 the banking system substantially expanded its loans to business enterprises in the loan size category of up to $1 million. The larger customers of the banks have found some of their requirements through new issues of securities, and have thereby reduced their reliance on bank credit. On the other hand, those business enterprises which are not in a position to sell bond or stock issues, and which in any case require working capital funds which can only be obtained from their banks, have been able and are now able, subject to rules of sound banking practice and individual judgments of credit officers, to obtain the current working-capital loans required to enable them to carry on and expand their operations. New enterprises are able to obtain loans as new customers of the banks---the banks are taking on new accounts all the time---and old customers are able in appropriate cases to obtain increased lines of credit.

I am confident that the banks will continue to give priority whenever necessary to the needs of smaller businesses and Canadian-owned businesses.

In the aggregate during 1960 the banks' loans and holdings of non-Government securities rose by $340 million. The banks also increased their holdings of more liquid assets, including Government securities, by $410 million. These are the real facts of the bank credit situation in Canada today. The fact that the banks have been able, in addition to increasing their loans to business, to add even more to their holdings of Government bonds and liquid assets, and to add very heavily to their personal loans of the consumer credit type, is evidence that they have had lending resources more than ample to meet the normal bank credit requirements of business.

In the capital market the rates of interest on new long-term loans are somewhat higher today than they were six months ago, but considerably lower than they were 12 months ago. A rise of bond prices and decline of interest rates up to the end of last summer, partly of a speculative character, were in part reversed when it turned out that investors were unwilling to pay the higher prices or to accept the lower interest rates on purchases of any large volume.

In the past two months, bond markets in Canada have improved. A very successful sale of the new issue of Canada Savings Bonds in November was followed by two well-placed short-term issues by the Government of Canada in December and January as well as a large number of successful provincial, municipal and corporation issues. In the market for Government bonds there has been a tendency towards moderately rising prices and lower interest rates.

From time to time one hears it said that provinces and municipalities, and even business corporations, are unable to obtain all their capital requirements in the Canadian market. Such statements should be treated with some skepticism. There is a very considerable volume of savings held in bank balances which from time to time can be attracted into securities issues in Canada. Various shifts can take place between different sources of investment funds and different outlets for those funds. The problem in almost all cases turns out to be not a question of availability of funds, but of the willingness of the borrower to pay a rate of interest adequate to obtain for him the volume of funds which he desires. The most determined borrowers do not find that funds are unavailable.

At any time there will always be in any country some borrowers who do not choose to pay the rate of interest established by the operation of a free market of both lenders and borrowers. Sometimes Canadian borrowers who have no foreign currency income even though of a purely domestic character go to New York or other foreign centres and (unwisely, I am sure) borrow foreign funds which will have to be repaid in foreign funds at a time when the exchange value of the Canadian dollar may be very different from what it was at the time of borrowing. Such borrowing may be undertaken because of a mistaken view of the true cost of the money to the borrower in question, or for reasons of prestige, but not, I believe, because of a lack of availability of funds in Canada at market rates of interest.

The recent changes in the withholding tax on interest paid to foreign investors, as announced in the Budget of last December 20th by the Minister of Finance, may reduce the apparent attractiveness of foreign borrowing. Apprehensions which were expressed by some people at the time, that as a result of this the Canadian capital market would be overloaded, have not yet been borne out by events. If at timescongestion should develop, I would hope that with the co-operation of all concerned, ways could be found for overcoming the difficulties. It is certainly the desire of the Bank of Canada to facilitate the flow of funds for investment in Canada and the maintenance of orderly conditions in Canadian capital markets.

The availability of credit in adequate volume is a necessary but not a sufficient condition to ensure that the economy will operate at a high level, or that all parts of the country will participate equally in growth and development, or that unemployment will remain low in the country as a whole or in a particular region. The central bank does not determine how the total volume of credit will be used, or otherwise exercise any direct influence on the rate of economic activity or its composition. On the other hand, it has long been recognized that governments can and do exert an important influence both on the general level of economic activity and on particular types of activity.

Governments can increase or reduce their own spending. They can increase or reduce their own revenues. Decisions as to spending and taxing, or charging for services, will result in increases or decreases in government debt. Both the nature of the expenditures and taxes, and the related borrowing operations, can have broad effects on financial conditions and the climate of opinion in financial markets, and on various sectors of economic activity.

In addition to controlling their own financial and other operations, governments at all levels can if they wish take other steps to encourage or discourage various forms of economic activity carried out by private individuals and private business. Decisions on such matte·s have to take account of many different and often conflicting considerations, and are of necessity influenced by the philosophy or outlook of different groups and of the community as a whole. It is important to make clear in this connection the distinction between governments and central banks.

Governments can regulate the allocation of credit, the distribution of income, the conduct of economic activity and the provision of employment in particular industries or areas, if this is felt to be desirable in the light of all the circumstances. Governments can encourage or discourage exports and imports, or activity in particular industries which provide exports or which compete with imports. They can influence the nature and size of urban development or the distribution of industry throughout the country. Governments can in various ways encourage or discourage the growth of saving, or regulate consumer credit, or influence the rate of house building or the direction of private capital development. They can ensure that the total volume of spending within the economy is of such a magnitude as to be capable of being financed out of the annual production and the saving out of income of the country as a whole, without involving the building up of a large foreign debt.

Measures of such various kinds are being utilized in one country or another today. All of them have been utilized in Canada at one time or another, but measures of such a nature cannot be taken by the central bank, certainly not in any specific way with a view to specific results. No doubt some people would be opposed to some or all of such possible lines of action. But if the community as a whole wishes such things to be done, there are agencies which can do them --- outside the field of central banking.

I want to emphasize this matter in order to refute as strongly as I can the suggestion that the Bank of Canada is in any way opposed to the idea of full employment, or operates with a view to restricting economic growth or preventing increased employment in the supposed interests of monetary policy or of anti-inflationary endeavours.

The seeking of full employment, the overcoming of unemployment by non-inflationary means, must be for all of us an economic objective of the very highest priority. We should not allow exaggerated ideas about the influence of monetary policy to distract us from pursuing the most practical and effective measures outside the monetary field to ensure the restoration of a high level of employment and the reduction of unemployment to the minimum level. (Equally, we should not let the sound administration of monetary policy and public acceptance of a soundly administered monetary policy be jeopardized by natural concern about a high level of unemployment which has not been caused by monetary policy and is not curable by monetary policy.) We need more public consideration and discussion leading to agreement on measures adequate to ensure that in future Canadian production and employment will increase more strongly than they have in recent years, and will develop in directions calculated to improve and strengthen Canada's economy and provide diversified employment opportunities.

Large-scale unemployment is an indication of failure on the part of all of us collectively to make the most effective use of the resources of modern technology and social organization. When the economy as a whole operates at less than full capacity, we are not producing the maximum possible supply of goods and services for use today, or for increasing our capacity to provide a higher rate of production and a higher standard of living tomorrow. The nation as a whole suffers real economic loss, but avoidable economic loss, in addition to the personal loss and frustration of those particular persons who are seeking work and unable to find it. My own approach to the economic, social and personal problem of unemployment is that no price is too great for the community as a whole to pay in order to achieve full production and reduce unemployment to the lowest possible level. The practical question is, what are thebest measures to take, and how is the cost of those measures to be shared by the various groups and individuals that make up the community. I would reject the method of inflation. I would not reject any other method, though some will be found better than others.

In considering how to increase production and employment, the underlying principle surely is that those who are employed must be prepared without stint to help those who are unemployed. Those regions which are most fortunate must be prepared to help those regions which are least fortunate. The form of help must be such as to create employment opportunities for those individuals and those regions who from time to time find such opportunities to be deficient. The unemployed must be enabled to engage in useful work producing something which the rest of us must be prepared to purchase or pay taxes for, even if the monetary cost of those goods and services is greater, or appears to be greater in the short view, than the cost of purchasing the same or similar goods and services from persons employed in countries outside Canada.

It would not be sufficient, in our present situation, to confine measures for reducing unemployment to the encouragement of increased production of goods and services of a kind which are not in competition with foreign products. To the extent that we cannot increase our exports, we must increase domestic production in displacement of imports. Our international balance of payments situation has been a matter of serious concern for some years. The growth of our foreign debt is reflected in a more and more complete take-over of the ownership and direction of economic activity in Canada by foreigners. If we take thought for the future as well as for the present, the desired increase in production and employment in Canada must be of such a character as to displace a percentage of the current flow of goods and services into Canada from abroad, to the extent that we shall no longer have to go on increasing our foreign debt, or selling off Canadian resources and Canadian enterprise to foreigners, in order to pay for a continued volume of imports greatly in excess of any feasible level of exports. The required displacement is of the order of 4% of our Gross National Product, or 20% of the present volume of our imports of goods and services.

I should like to emphasize once again that the adoption of any policy or any combination of policies directed towards establishing and maintaining full employment and maintaining a high rate of steadily continuing economic growth is not in any way prevented or limited by the central bank, or by a sound money policy. There is no financial obstacle to the carrying out in a non-inflationary way of any programme which is physically possible, if the community is willing to make the appropriate arrangements and put into effect whatever diversion of physical resources and changes in the distribution of real incomes may be involved in such programmes. These are the real factors involved, which cannot be avoided.

There are, of course, both inflationary and non-inflationary ways of attempting to achieve full employment and a satisfactory rate of growth. Inflation is a vicious and highly disruptive way of distributing the costs of such an effort. It amounts to taking from the weak in order to give to the strong. There are more equitable and more efficient ways of sharing the real costs of constructive economic and social policies. A central bank must endeavour to discourage inflationary methods and try to offset inflationary pressures arising from any source. But the policies and operations of central banks constitute no obstacle to the carrying out in a non-inflationary way of any economic programme that the community as a whole or any subdivision of the community may decide to pursue.

The problem of regional development in Canada, of the existence of varying rates of economic activity in different regions, and varying levels of income, saving, spending and investing in the various regions, is one which goes to the very heart of the Canadian confederation. Canada was not in the beginning a natural geographical unit or a natural economic unit, and was not expected to develop, and has not in fact developed, in a way that might have been appropriate for a natural economic unit. The basic fact of Canada as a nation is that it represents a coming together of various peoples living in widely separated regions, influenced in important ways by different geographical and climatic conditions as well as different historical and psychological factors. These peoples however shared certain objectives in common and desired to form a single political body in order to further these common objectives --- a single political body as seen by the outside world, although internally much of the original political distinctions between the different elements in the confederation have been retained.

One of the operating principles of our confederation is that the various regions deliberately foster trade and communications with each other, in addition to whatever trade and communications it may be feasible and profitable to carry on with the outside w orld. Another and equally important principle is that each of the regions should develop its own economic structure to the fullest possible extent, and be assisted by the other regions in so doing. The bonds linking the various regions together, and the boundary around the whole, constitute one strong basis of nationhood. The maintenance of active, vigorous and independent local units constitutes another essential basis of nationhood. Inter-dependence and mutual assistance cannot be fully effective without independence and self-help and the vitality, resourcefulness and adaptability of each of the constituent elements must be supported by the unquestioning response of the nation as a whole, and of the more fortunate areas at any particular time, to opportunities for assisting those areas which are contending with adverse circumstances at any particular time.

The provision of credit is not the only factor, nor the most important factor, in successfully expanding economic activity in a particular region. Opportunities must be developed for profitable expansion of employment-increasing industries, and there must be men of ability, energy and ambition prepared to go into new enterprises, to expand industries, and to take risks, whether personally or collectively, in order to build for the future. The required opportunities can be developed by the people of the communities concerned or their governments, but not by the banking system.

So far as the supply of credit is concerned, I believe the Canadian economy as a whole is capable of generating sufficient capital to finance all the capital development that can be absorbed into sound sustainable growth. I hope it will be found as time goes by that those regions in Canada which are least able to provide for their own capital needs will be drawing an increasing proportion of their requirements from other Canadian sources rather than from foreign sources.

The over-all rate of saving in Canada as a whole is large, and is in fact larger than the rate in the United States. If properly employed, therefore, our own savings as a nation would provide us with a rate of economic development greater than that which can be possible in the United States---

insofar as development depends upon investment in tangible physical assets. Economic development also depends, of course, on non-material factors, on increasing the quality and value of what might be called our human capital. I understand that in the United States some professional economists, including the new Chairman of the Council of Economic Advisers, are coming to believe that the rate of economic growth, both nationally and regionally, will be fostered as much by the accumulation of human wealth and capabilities in the form of health, general education, vocational and scientific training, and broadly-based ingenuity and resourcefulness, as by the building of more plants and the installation of more machinery and equipment.

However that may be, most people would agree that a further increase in total Canadian saving would be desirable and that, in particular, it would be desirable to have an increase in personal saving as distinct from corporate saving.

The net rate of personal saving is what is left over after subtracting, from the savings made each year by some persons, the dis-saving or reduction of capital or borrowing made by other persons for the purpose of financing current expenditures on consumption. There will always be a certain number of people living on their capital, particularly old people and those who have retired, or young people and dependents who are being supported out of previously established funds. This is to be expected in the natural course of life. On the other hand, there is also a form of dis-saving, represented especially by consumer credit, which amounts to mortgaging one's future in order to consume today at a higher rate than one's present income can finance. To some degree and in some circumstances such action is unavoidable. It is clear, however, that there has been a very large and rapid expansion of consumer credit in this country since the War, and this increase comes out of the savings of other people which otherwise would be available for financing Canadian development under Canadian ownership and control.

We used to think we were more conservative in this regard than the Americans, that we did not engage in high pressure selling techniques and were not susceptible to the urgings of those who would have us live beyond our means. Evidently the salesmen have been very successful in overcoming our sales resistance in this field. The rate of increase in consumer debt in this country in recent years, and indeed ever since the Second World War, has been greater than the rate of increase in the United States, and the amount of consumer debt in this country now represents approximately the same proportion of personal income after tax as in the United States.

Any programme for increasing Canadian savings, especially the personal savings of Canadians, and ensuring that these savings are put to uses which will be of most benefit to the nation as well as most rewarding to their owners, would be strengthened by a changed attitude towards consumer debt and consumer credit. I believe Canada would benefit from a return to the more frugal, conservative practices and habits of mind that we used to think were characteristic of Canadians in all parts of the country.

I have said on a number of occasions that as a nation we were in effect living beyond our means because we were incurring obligations to the outside world by importing into Canada goods and services for consumption as well as for capital development on a scale much greater than any volume of exports we were able to achieve. There are those who say it is all right to go on increasing one's debt, that the future will take care of the debt and that the economy will be strengthened in the meantime. It is claimed that we could not have a satisfactory rate of development without relying on large annual imports of foreign capital. I think that argument falls down on three grounds. First, our own rate of saving under conditions of full employment is adequate for a high rate of development. Secondly, reliance on foreign capital has led to a kind of economic development in this country which I believe has exaggerated both booms and recessions, has resulted in higher peak levels of unemployment and higher average levels of unemployment than if we had pursued a more steady pace, and has also contributed to a higher level of costs than we otherwise would have developed. Thirdly, and in some ways most important of all, continued reliance for many years on very large imports of foreign capital is resulting in the taking over by foreigners of a higher and higher proportion of all kinds of Canadian economic activity, the selling off of our natural resources as well as the subordination of more and more sectors of secondary industry to foreign management and control.

The fundamental question which we must decide one way or the other for ourselves, is whether we are prepared as a nation to live by our own exertions, to save out of income what we think we need for future growth and development, and to finance and control our own development to such a degree that the Canadian interest in Canadian industry shall in future increase, instead of continuing to decrease until it is reduced to negligible proportions. Adherence to such principles is not in any way prejudicial to full employment or to a steady rise in the standard of living. There is nothing foolish or sacrificial of our own best interests in pursuing policies which may be called living within our means, or standing on our own feet, or some other homely phrase based on hard work, frugality, self-respect and pride in maintaining our independence and being master in our own house. It is a personal question for decision by all Canadians. It is a question which I believe goes to the heart of the effort which our predecessors started so many years ago, to develop and safeguard a nation extending across the northern half of this continent which, while living in the greatest friendship and harmony with our neighbours to the south, would yet remain independent, vigorous and self-confident in all aspects of national life.