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Remarks by

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CHAIRMAN

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at the

Canadian Club Luncheon

Toronto, Ontario

November 13, 1978

This is a long-delayed pleasure -- one I have been looking forward to for a very long time. You business people in Canada and we business people in the United States share many of the same hopes, fears, challenges and opportunities, and yet we rarely sit down together in an atmosphere like this to talk about them. In fact, most of our communications seem to take place in abbreviated newspaper stories and in one-minute radio or TV reports. At times, communications of that kind can be worse than no communications at all.

I had hoped to be here as your guest a year ago, as some of you probably know, but those inscrutable fates who decide such things decreed otherwise. In a certain sense, however, the delay has worked out for the best. Because the timing of my visit today could hardly be better.

We have a new president of GM of Canada -- Alan Smith, who is here with us today and who has been on the job in Oshawa for just about a week now. Also, both our company and the entire Canadian auto industry have just completed their third consecutive model-year of record sales. Employment at GM of Canada -- an item of special importance to the people as well as to the economy of Canada -- is also at record levels. I am happy to report that we now have more than 40,000 Canadian men and women on our GM payrolls.

Alan Smith is filling the shoes of a truly extraordinary man with an extraordinary record of accomplishment, Don McPherson. But Alan has proved himself to be a business executive extraordinaire in his own right. As vice president of the Corporation's Financial Staff, he has had to involve himself in virtually every phase of our worldwide operations, from budgetary matters to the more technical aspects of production, forward planning and research. This is going to be a demanding job for Alan, but there are few people in our organization who have done as much to earn our complete confidence.

Meanwhile, Don McPherson has moved across the border to head up our Buick Motor Division, following in Dave Collier's footsteps. During his three years as president of GM of Canada, Don succeeded in setting one annual sales record after another. He knew nothing but success, and we're counting on him now to bring that victory touch with him to Buick.

We at General Motors are fully aware of the many problems that face the auto industry and business in general on this side of the border as well as on the other. But in both cases we remain very optimistic about the continued potential for growth still open to all of North American business. And, as contradictory as it may seem to the average citizen, one of the principal reasons for our optimism is the strong measures our two governments are taking to bring high inflation rates down and to strengthen the value of our currencies on foreign exchanges.

The temporary effects of higher interests rates, credit restrictions, and other anti-inflation moves may produce a moderating trend in future economic growth -- but not to the extent of recession. On the contrary. We expect economic growth in both of our countries to continue through 1979 -- probably at a slower rate than in 1977 and 1978, but nevertheless upward; not flat; not recessionary.

Our great hope in the United States is that our government will learn from its own past experiences with mandatory wage and price controls -- and also from your own sad experience with them here in Canada. The voluntary restraints we in the United States have been asked to accept should prove effective -- but only if organized labor as well as business cooperates, and only if the government sets a proper example for us by responsible fiscal and monetary policies -- by restraining government spending and reducing deficits. General Motors has pledged its support of the President in fighting inflation, and so has the UAW with certain qualifications. As I say, we remain optimistic.

I think that optimism has to be reaffirmed today because of the unexpected reaction which both your stock exchange here in Canada and ours in Wall Street had to GM's recent announcement of our year-end dividend. We anticipate record sales and earnings for General Motors in both countries this year; and while the total dividends paid in 1978 of \$6.00 a share aren't the highest in our history, they are the second highest. And one reason they are second is that last year's record reflected a degree of makeup for the lower rate of payments made during the 1975 recession. GM's board of directors felt that its declaration of an extra dividend of \$1.50 a share at year-end would be looked upon as a bullish action; we hardly expected the opposite, that it would be interpreted as a bearish reaction to the economy and to future auto industry sales.

The sophisticated observer should have known better. We pointed out in our news release that General Motors is facing capital expenditures of about \$5 billion in 1979 alone, a level nearly double our pre-1977 record spending. The principal reason for this is the progressively tougher government standards of fuel economy we will have to meet. But also involved are a host of other extremely demanding government regulations. Our fuel economy program, for example, is costing us about a billion dollars for every half-mile-per-gallon of improvement -- that is the rule of thumb we have been using. Professional investors and financial analysts should have recognized the year-end extra dividend of \$1.50 a share we declared as a very prudent decision -- generous, but also mindful of future capital necessities.

So, on this rare opportunity we have to speak directly with each other, let me reassure you that General Motors has not altered its sales prediction for either the Canadian or the U.S. auto industry. Here in Canada, we still believe that the 1979 model year will be a record one for the auto industry -- the fourth in a row -- and that another industry sales record will also be established in the United States.

I have never really understood the strange and volatile psychology of Wall Street, and I must confess that I understand it even less today.

Looking to the future, I don't think there is any doubt that General Motors will have to add additional plants and other facilities to meet the growth and changing market demands we anticipate. But where those new plants and facilities will be located is an open question. It will depend on such traditional factors as local economic climate, closeness to the market to be served, and the availability of such necessities as skilled labor and adequate transportation, energy, and utilities.

I know that there has been some conjecture in the Canadian press about the possibility of General Motors building a new aluminum and/or engine plant in Quebec or Ontario. Well, let me tell you that no such decision has been made -- neither for nor against. In fact, we are not certain that such new plants will be needed anywhere in the near future.

And let me tell you also that we have been placed under no pressure whatever to locate such facilities in the United States rather than in Canada. No one in Washington -- not President Carter, not Secretary of the Treasury Blumenthal, not anyone -- has spoken to us or written to us on this matter. As far as General Motors is concerned, when we are considering an investment in our North American operations, we look at the entire continent. In making our decision, it is as if the border between Canada and the United States did not exist.

We are very proud of GM of Canada's record of success here in Canada -- a record based on product quality and a high degree of customer satisfaction. When we are looking for new market opportunities -- as we always are -- we know that we will find a good share of them here in Canada. For that reason alone, you can be sure that GM of Canada will share to a very important degree in any future expansion plans we make.

I made all of these points about a month ago with Mr. Simon Reisman, when he visited us in Detroit. Mr. Reisman, as you undoubtedly know, has been commissioned by Prime Minister Trudeau to make a thorough study of the automotive trade agreement existing between our two countries, and it was in that connection that we met.

I know this agreement is very much in the news today, and Mr. Reisman's report is expected momentarily. I have only a few very brief thoughts I would like to share with you about it.

General Motors, of course, was not a party to the drafting of the agreement, but we have been operating under it for about 14 years now. Judging by our experience, it is our belief that the agreement represented a very enlightened approach to what had been an increasingly serious problem in automotive trade relations between our two countries.

Reassuringly, in each year that has passed since the signing of the agreement in 1965, there have been increased opportunities for auto manufacturers on both sides of the border and both countries have benefited. Canadian auto production, for example, has almost doubled, and employment in the Canadian auto industry has risen from about 66,000 to about 110,000 -- again, almost double.

All in all, taking everything into account, we believe that both countries have derived considerable benefit from the agreement, and we would question the wisdom of subjecting it to any major revision.

The agreement was well conceived and has served the interests of both countries effectively. About the only thing the inspired framers of the agreement didn't anticipate or appreciate was the tremendous growth that was to take place in the North American automotive market -- and frustratingly, the extent to which that growing market would be captured by overseas imports.

Until recently, none of these foreign firms had manufacturing facilities in either of our countries; as a result, they were not covered by the agreement -- they were not qualified to become subscribers. Now, of course, Volkswagen has opened a plant in the United States and there is persistent speculation that other overseas manufacturers -- especially among the Japanese -- may decide to locate in North America. Every encouragement should be given to them on both sides of our border to bring production to our continent. This would add investment and jobs -- and it would also help resolve our auto industry's trade-balance difficulties. It is in that direction that we at General Motors feel our two countries should move. We welcome overseas-based competition -- but also we feel it must be fair as well as free.

As I said earlier, Canada and the United States have not only been good business partners, but in business and economic matters generally we share many of the same problems. High inflation and unemployment rates are two of them; another is the declining value of our respective currencies on world markets.

But we also share many strengths and opportunities. We are both a productive people; we are innovative; we share the conviction that the future of our two economies will be determined to a profound degree by our individual ability to compete aggressively and successfully in international trade and competition.

There is much to be done by everyone concerned to achieve such competitive improvement -- by our governments, by business, and by organized labor. Our first priority, of course, must be to get our own houses in order -- by controlling inflation, by creating incentives for business investment, by increasing our productivity.

Unless we are disciplined enough to achieve all of these objectives, our two countries could lose even more companies and more industries to foreign competition. We could export even more jobs, conceivably to the extent that all manufacturing for North American consumption may someday be based outside of our borders. We could be transformed into service economies, shining each other's shoes -- and, in the process, suffering a marked lowering of our standards of living.

To prevent such catastrophe, a good place for our two countries to begin is to take a fresh look at ourselves -- especially at our approach to world trade.

It seems to me that we in North America have lacked a full appreciation of the importance of world trade and the true dimensions of world markets. We have too conveniently been lulled into a sense of security by the traditional appetites of our domestic markets and by the rich and deep opportunities available to us here at home. We haven't been impelled by the force of necessity to export to survive. This is probably more true of us in the United States than you in Canada -- but we both have progress to make.

What we have both overlooked is that in today's advanced world of instant communications and rapid transport, there are really no domestic markets -- there never really were nor should have been in our thinking. Today, all markets are world markets, not domestic -- and, above all, the markets here in North America are truly world markets. In fact, they are the largest, the most easily accessible, and clearly the most attractive markets existing anywhere. Our two countries should be proud of this fact and should dedicate themselves to their preservation and expansion. But we must then be prepared as well to accept the harsh realities that are presented by our global status.

Gone are the days when Canadians and Americans could afford to take a relaxed view of the world outside our continent and the competition there -- to assume that we would not have to worry about competition from overseas. As I say, this is especially pertinent for the people of the United States. At one time, particularly immediately after World War II, we in the United States had to dedicate ourselves to the assistance of overseas countries -- help them survive, help them rebuild their industries. We gave them of our resources, of our technology. We willingly shouldered the burdens of their defense at the same time that we dedicated ourselves to the development of their national industries.

Interestingly, perhaps -- and I freely admit it -- we in the United States were motivated more by the advancement of our own self interests than by any altruistic desire to further theirs. In fact, the truth is that we felt secure in the belief that these new industries overseas would find outlets for their products in their own markets and in their own local, developing areas -- not in our traditional markets -- and, above all, not in North America.

But the world has continued to turn, and with its turning a new day has dawned in international trade. The developed countries of Western Europe, with a long-standing and well-appreciated understanding of the importance of trade, have continued to reach outward for business, even while developing a trading partnership with their close neighbors in the European community. At the same time, Japan -- and to a growing degree, other countries in Asia and in Latin America -- have moved beyond the stage where their developing industries were serving primarily their own home bases. Today, Asia and South America are no longer merely struggling to achieve a degree of competitiveness in world markets. They are full-blown and very formidable competitors, reaching out beyond their own borders and aggressively seeking business everywhere.

These new trading giants have kept their home markets pretty much to themselves -- in some cases by direct tariff barriers, but also by less direct means. They have emphasized to their people the importance of export trade and they have called upon their people to make sacrifices in order to support expanded exports. And with a solid base at home, they have been able to reach out -- to expand their facilities far beyond anything needed to serve domestic markets in their own areas. Their mission has become simply this: to operate their expanding facilities fully, regardless of the ups and downs of their economies at home or abroad, and to export products aggressively to other shores.

As I say, this is where Canada and the United States should begin their world-trade renaissance -- here, with a fresh look at our own economic and business attitudes towards world trade, with a realistic appraisal of the competition we face overseas, and with an appreciation of how much the character of world markets has changed.

It's a different world we live in. To some extent, Canada but particularly the United States depend on the rest of the world for a steady flow of resources that are vital to our domestic development. But neither of our two countries can afford to lose ground in the balance of trade. In the United States, especially, our mounting deficits in overseas payments is the heavy price we have been forced to pay for our slowness in responding to changing world trade conditions.

We in business have much to contribute to correcting this situation. And the first and best place to begin is within our own operations -- by decelerating cost increases, for example, in order to be more competitive with imports here at home, and by looking more aggressively overseas for new markets for our products.

Meanwhile, our two governments can contribute towards a solution by promoting the cause of free world trade. In relation to most countries -- notably Japan -- Canada and the United States are far more advanced in this concept of freedom. We must also try to sell overseas competitors on the idea of fair trade -- for example, the knowledge that artificial government subsidies on exports only serve to export unemployment from one country to another. Such counterproductive policies are just as destructive to vigorous international trade as tariffs and other forms of protectionism.

What we in North America have learned to be the realities of trade, in short, are just as real for the rest of the world. So long as business communities and governments learn to discipline their costs and keep their respective national priorities in some semblance of realistic order, free trade offers every country of the world the greatest possible opportunity for economic and social development. That is where the world's future lies. That is what every nation should be working for.

And I believe most other countries of the free world will listen to us. Judging by the worldwide concern that has been shown over the falling value of the dollar, there is clear evidence these countries realize that a strong North American economy is their own best hope. The concept of "Planet Earth" or "Spaceship Earth" -- with all it implies concerning the mutual and interlocking dependencies of the world's nations -- is almost universally accepted.

Greater national competitiveness, whether it be Canadian, American, German, Japanese, or of any other nationality, is the great hope of the Third World, as well as of the First and Second. In vying with each other for the most efficient use of all resources available to us, and in competing for the lowest cost methods of production and of marketing and servicing, we are creating a base on which every nation of the world can build its plans for a better way of life for its people -- and, hopefully, we are creating a base as well for international peace.

Thank you very much.