

Department of Finance
NEWS RELEASE



Ministère des Finances
COMMUNIQUÉ

For release / Pour publication: 12:30 p.m. EST

Ottawa, April 4, 1972
72-40

Notes for an address by
Finance Minister John N. Turner
to the Canadian Club of Toronto,
April 4, 1972

I would like to take this opportunity, Mr. Chairman, to talk about some aspects of Canadian industrial policy.

Recently, there has been a great deal of public discussion about the need for Canada to develop an industrial policy for the 1970s. There appears to be widespread agreement that Canada should formulate an industrial strategy or "game plan" for the future. But there is far less agreement about what form it should take or how far it should go.

Some of the discussion of the issue has been in terms which suggested that establishing an industrial policy would be something new for Canada. Some has been in terms which suggested that simply by establishing the right kind of industrial policy Canada would be presented with a miraculous cure for all of its economic problems. Both such suggestions are nonsense.

Canadians have always had a pretty good idea about what their industrial objectives should be. They have also had a pretty good idea about how they could best go about trying to achieve them under the circumstances prevailing at the time. There have, of course, been differences of opinion over what the priorities should be at any given point in time and about the means that should be adopted to achieve them. As a general rule, however, there has been a broad measure of agreement about where the national interest lay.

At one time the focus has been on opening up our frontier and developing a transportation system to help populate the nation and bind it together from coast to coast. At other times we have put more weight on developing our natural resources or our industrial base. The National Policy of 1879, for example, established a very clear plan for fostering the growth of manufacturing industry in Canada. The basis of that policy was high tariff protection for Canada's infant industries. It was complemented by policies welcoming capital investment from abroad and encouraging a heavy inflow of immigrants to provide a market for the output of the manufacturing industries in Canada.

At the time it was proclaimed, the National Policy was not regarded even by the government of the day as the most ideal means of achieving the nation's objectives. It was accepted as a second-best policy. But it was also believed to be the best option Canada had open to it in light of the consistent refusal of the United States to move toward freer trade between the two countries.

These policies played their part in helping to develop a broadly based manufacturing industry in Canada, which in turn has contributed to the high standard of living Canadians enjoy today.

But these policies also helped to contribute to some of the problems we face today. The high tariff wall and the Imperial preference system led to the establishment in Canada over the years of a number of small-scale, relatively inefficient plants - a high proportion of which were also foreign owned and controlled.

Canadian commercial policy, of course, has not been the only factor that has helped to determine the structure and nature of our economy. As was the case with the National Policy, the course we have been forced to follow has often been determined by the policies of other countries, particularly those which restricted our access to export markets.

During the postwar period, there has been a fundamental shift in Canada's basic industrial approach. Over the past quarter-century, successive Canadian governments have negotiated substantial reductions in world trade barriers. They have also adopted a variety of specific policies, programs and other measures to encourage and assist Canadian companies to take full advantage of the new market opportunities opened to them around the globe.

This approach to industrial development during the postwar period did not suddenly emerge full-blown overnight as part of a fully defined national policy. Instead it slowly evolved in response to changing circumstances at home and abroad. It seems to me that this move to make Canadian industry more internationally competitive has been well understood and strongly supported by the vast majority of the Canadian people.

This approach, and the means adopted to implement it, have played an important part in fostering the strong growth of Canada's secondary industries during this postwar period. In 1950, less than 10 per cent of the goods which we exported were fully manufactured. Today some 36 per cent of all our exports are made up of manufactured goods. Some of our industries have become fully competitive internationally. Many others have made considerable progress toward this goal.

I believe that Canada has adopted and pursued an effective national policy for promoting industrial development during the postwar period. But I and other members of the federal government fully agree that the time is ripe to take a hard look at that policy to determine whether it should be modified to take account of the circumstances that prevail today and those that we can foresee taking shape in the years ahead.

What makes it important to take stock of our position now is the fact that the world is caught up in the midst of a number of far-reaching changes, the outcome of which it is not easy to predict. There is nothing new in change. What is new is the swift pace at which change is taking place in almost every facet of our society. The already rapid rate of advances in technology continues to accelerate,

bringing about vast changes in our lives, in our way of producing goods and in our way of doing business. Huge multinational corporate giants have come to assume an increasingly dominant role on the world economic stage and in the Canadian economy itself. The world is in the process of transforming itself into massive trading blocs, which in itself is a matter of immense significance to Canada as a major trading nation.

Moreover, the relative competitive position of the various nations is also undergoing a pronounced change. That was the hard fact that lay behind the international monetary crisis which came to a head last summer after the United States adopted a series of measures to halt the deterioration of its own competitive position.

Because all of these developments have far-reaching implications for the development of our own country in future, it is only sensible and realistic for us to take a new look at our situation and to reconsider what policies will best serve our own long-term interests.

When we come to reassess our industrial strategy there are a great many considerations we must keep closely in mind. Let me say right off that I have some misgivings about the term "industrial strategy" itself. It suggests some sort of military operation in which everybody gets their marching orders as part of some vast plan established from on high. That is not what I am talking about. That kind of approach has no place in our kind of society or in our kind of economy.

Ours is essentially a free enterprise system, not one whose every movement is determined by the state. Certainly the federal government can - and will - play a central role in setting its course. But every day millions of Canadian consumers - workers, farmers, fishermen, businessmen, investors - make individual decisions in the market place which over time have a massive impact on the state of our whole economy.

I am not suggesting that we change this system. I can assure you it's not the intention of this government to get into the state-planning business. But we do intend to provide leadership. We do intend to work out broad policies, broad designs for the future. I don't think the federal government should try to do this on its own. We need the experience and wisdom of businessmen and union leaders. We need the views of the provinces. We are looking for ideas and we're prepared to listen to what people have to say. I don't believe that any one group of men - in Ottawa or elsewhere - has all the answers. So we want your views. We want you to tell us not just what you think would be good for your firm, for your industry; tell us that, but tell us, too, what you think Canada's overall industrial policy should be in the best interests of the nation as a whole. I realize that we have some homework to do in Ottawa. We have to learn to coordinate our own federal economic policies more effectively. I think we're beginning to make progress in that direction. I can assure you that as Minister of Finance, I intend to see that we make more.

What I am suggesting is that as a nation we need to consider carefully what changes should be made in our basic industrial approach and what kind of policies and programs should be formulated over time to put those changes into effect in the best interests of the country as a whole. This involves establishing a broad set of objectives for Canadian industries which hopefully we can all agree upon and work together to achieve.

But I don't want to leave you with any illusion that a new industrial policy will be easy to work out. It won't be. And once worked out, it won't provide the answers to all our problems. There will be difficult decisions to make. We won't always see eye to eye on what should be done - partly because we sometimes see things from a different perspective - and we won't always agree on the priorities. And, inevitably, there will be mistakes. So let's not fall into the trap of thinking we're headed for the new millenium. The most that we can hope to accomplish as a nation is to organize ourselves better so that we can identify and concentrate our efforts on achieving certain key goals. This country has to get out and hustle just to maintain our competitive position, to say nothing of improving it. We have no vested right to affluence or success. We have to compete for it, work for it. In other words, let's stop spinning our wheels.

There are some basic things which I think we must take into account in evolving this new policy. I think most Canadians would regard it as fundamental that any new industrial policy maintain and, indeed, raise our standards of living. Canadian standards are high in comparison with those in other countries. Most of us want to keep them that way. Secondly, we want the opportunity, as Canadians, to participate at all levels in the economic life of the country. We want to exercise our rightful role in shaping the country's economic future - on the production floor and in the executive suite. I have said before that the real priorities for the 70's are economic - the bread and butter issues. I believe we must improve the quality of life. But I believe, too, that includes providing everyone with the means to earn a decent living - and to me that requires good, productive jobs.

But all the elements that go into an industrial policy are not economic. For example, a viable industrial policy must take account of the increased importance which all of us today attach to preserving the Canadian identity. We want to develop our own type of society in Canada, in our own way, in our own country. And there are other goals, other priorities, that are important to us. We are more concerned today about protecting the environment. There is also a new emphasis on achieving greater equality in income and in economic opportunity between different points of Canada. We realize we've got to make a determined effort to develop our poorer regions. Finally, there is mounting pressure for new social investments to cope with the problems caused by the expansion of our towns and cities. We don't want our cities to become just asphalt jungles, as has happened elsewhere. And this imposes its own costs.

These may strike you as all being "motherhood" issues. But, as any businessman knows by now, they are issues that simply cannot be ignored. And so it takes more than industrial efficiency to make an industrial policy. It involves a balancing of differing interests, differing objectives.

These differences also show up in the decisions, in the trade-offs, that have to be made between industries. This is where you get down to the nitty-gritty of making an industrial policy work. No country, least of all Canada, has the resources to do everything it wants to do. We have to concentrate our efforts, to select our targets. We have to decide at any point in time which industries are most deserving of support. We only have so many chips to play with and we can't afford to scatter them across the broad range of industry. As Darcy McKeough, Ontario's Provincial Treasurer, pointed out in a speech in Toronto only last week, it means that we have to face up to some hard choices. We have to concentrate on doing these things we can do best.

I am suggesting that the important thing is to have the right mix, the right emphasis in our development pattern. The emphasis must be on the growth industries, the high technology industries, the knowledge industries of the future, the ones which present possibilities of spin-offs. Often these will be industries where the pay-off prospects are so promising that they may require little or no government assistance. So much the better. Frequently, however, they may need help in getting started. And it seems to me that these are the areas in which government assistance should be concentrated. In some cases this may include a concerted and co-ordinated effort by the federal government to ensure that the output of such industries is granted fair access to the markets of other countries. I recognize that the process of change will often require the restructuring or the phasing out of some existing industrial operations, in which case our adjustment assistance programs will have an important part to play.

Finally, I think we have to decide on what the balance should be between manufacturing industries, resource industries and the service industries. They all have an important role to play in economic development - all offer important employment opportunities. It is not an "either-or" proposition, as some people seem to suggest. As I see it, it is a question of balance and of emphasis. In my view, we need to give a high priority - at least during the next few years - to creating jobs in the goods-producing industries. These jobs, of course, will generate more work in other sectors. This is the only way to get the number of new jobs we need to take care of our rapidly growing labour force. It is also the only way we are going to maintain our relative position in world export markets.

The question of export markets is fundamental. An industrial policy must be realistic. It is not what we would like to do that counts; it is what we can do. And this will depend in part on the success of our trade and commercial policies and of the impact on

Canadian exports of the commercial policies of other countries. We just do not have the option open to us of doing it alone.

As I said earlier, the world around us is changing very rapidly. With the world divided into large trading blocs, there may be a greater disposition among the leading powers - the Common Market, the US. and Japan - to engage in market sharing arrangements instead of continuing to move towards true liberalization of trade. Furthermore, tariffs are not now the only, or even the main barrier to international trade. As tariffs are reduced further, and particularly as they approach zero levels, countries will be tempted to depend more and more on subsidy techniques, on safeguard or emergency mechanisms, on rules about government procurement and on such measures as countervailing duties. There is clearly, a need for internationally agreed rules to limit the use of such devices.

One of the important considerations we have to keep firmly in mind in formulating industrial policy for the future - as has always been the case in the past - is the economic relationship between Canada and the United States. It is now evident that reconciling of the economic and political objectives of the two countries may be more difficult in future than has been the case during the past quarter-century. The measures adopted last year by the United States in an effort to strengthen its own economy, such as the DISC program and the job development tax credit, undoubtedly raise questions about the extent to which U.S.-based multinational companies in Canada will expand their capital investment and production in this country. The DISC program will almost certainly result in increased competition from some U.S. firms in our domestic market overseas. It may also reduce the scope for the international rationalization of production by U.S. subsidiaries based in Canada.

The recent decision by the U.S. Administration to join with the EEC and Japan in issuing a "declaration of intent" to seek new multilateral negotiations is a most helpful sign. We have supported it. It is clearly implicit in this declaration that the United States will be prepared to negotiate some reductions in its barriers to imports. If substantial negotiations take place, they will offer important opportunities to improve the terms of access for Canadian manufactured goods. I have in mind not just reductions in U.S. import barriers, but also reductions in the import barriers of the enlarged EEC and of Japan made possible in a broad multilateral negotiation.

But we still need more evidence that the declared intentions of these countries are real and that they are prepared to negotiate on non-tariff barriers as well as tariffs. In the months ahead Canadian representatives will be pressing for adjustments in import policy by the new European Community to offset the impact of the enlargement of the Common Market. They will be pressing Japan to begin to open its markets to semi-processed and finished products. We shall, I am sure, be busy talking trade with the United States.

Looking further ahead, we will have to ensure that any gains in improving the world trading system are not negated by international balance of payments problems or by attempts by some countries to maintain unrealistic exchange rates. Until recently a number of countries were, in fact, maintaining unrealistic exchange rates and there is no doubt that we in Canada have benefitted from the determined leadership of the United States Administration, and particularly of Secretary John Connally, that brought about the adjustments of last December. We recognize that the Smithsonian agreements are only a partial solution - that further steps are necessary to achieve a more lasting reform of the international monetary system. We are ready to participate in this work. We regard international monetary reform as every bit as important as the need for new initiatives in the trade field.

These are some of our broad aims in the field of international economic relations. Obviously our detailed objectives in any new round of trade negotiations remain to be worked out. They will depend in large part on how we have defined our global industrial objectives.

As I said at the outset of my remarks, we have as a nation pursued an effective industrial strategy throughout the postwar period, a strategy which has been implemented by a wide variety of federal policies and programs. Because of the massive economic changes underway around the globe, however, the time is ripe to take a hard look at our industrial approach to consider what adjustments may be required to take account of these far-reaching changes. This does not mean that all our past policies and programs need to be discarded. We must build on past successes. In reappraising our industrial strategy and the policies and programs we adopt to implement it, we must be realistic. The industrial strategy we pursue during the 70's must take full account of a variety of national goals and aspirations. But it must also take full account of the world around us, striving to achieve what is possible in light of the hard realities that confront us.

I have already emphasized that we welcome advice from businessmen, from labour, from provincial governments, from consumers and other groups about the kind of policies we should adopt to best serve the national interest of Canada in the years ahead.

The federal government can and must provide leadership formulating our industrial strategy, but you must also play your part. The fact is, when the chips are down what counts in determining the effectiveness of our industrial policy is how strongly you and other Canadians from every sector of our economy support it through the vital decisions you take in the marketplace every day of the year.