

HONOURABLE EDWARD SCHREYER

SPEAKING TO

THE CANADIAN CLUB OF TORONTO

TOPIC: 'CANADIAN RESOURCE DEVELOPMENT'

JANUARY 29, 1973

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GENTLEMEN:

ONE OF THE BASIC BELIEFS THAT IS FIRMLY PLANTED IN THE NATIONAL CONSCIOUSNESS OF EVERY YOUNG CANADIAN IS THAT HIS IS A RICH COUNTRY, A ~~VERY~~ TREASURE CHEST OF NATURAL RESOURCES WHOSE MAGNITUDE ALMOST DEFIES COMPREHENSION. I REMEMBER SO WELL THAT LITANY OF WEALTH THAT WAS PRESENTED TO US BY AN ENDLESS SERIES OF GEOGRAPHY TEXT BOOKS. CANADA HAD NINETY-FIVE PER CENT OF THE WORLD'S NICKEL, IT HAD ENOUGH IRON ORE TO BUILD A RAILWAY WHICH COULD ENCIRCLE THE GLOBE - EVERY SO MANY TIMES; OUR UNTAPPED OIL RESERVES COULD FILL A LINE OF BATHTUBS STRETCHING FROM LONDON TO.....ETC. ETC. WELL, YOU REMEMBER THE KIND OF THING.

THESE DESCRIPTIONS WERE - TO PUT IT MILDLY - A LITTLE EXAGGERATED AND GENERALLY MORE COLORFUL THAN ANALYTICALLY USEFUL. BUT THE BASIC POINT THEY WERE MEANT TO ILLUSTRATE WAS A SERIOUS ONE. A POINT THAT NO ONE DOUBTED, A POINT THAT HAS SHAPED THE ECONOMIC HISTORY OF THIS COUNTRY FROM THE VERY FIRST DAYS OF EUROPEAN SETTLEMENT. THAT IS - OUR RESOURCES ARE VIRTUALLY WITHOUT LIMIT, THEY WILL BE THE BACKBONE OF OUR ECONOMY, THEY ARE OUR INSURANCE OF AN EVERMORE PROSPEROUS FUTURE.

IN RECENT YEARS, I HAVE BEGUN TO SENSE A DEFINITE LESSENING OF BELIEF IN THIS PROPHECY OF CONTINUALLY EXPANDING PROSPERITY. THIS LESSENING IS NOT, I SUGGEST, DUE TO ANY PESSIMISM ~~IN MY PERSONALITY~~ OR ~~IN THAT OF~~ *on my part* ~~IN THE PART OF~~ THOSE WITH WHOM I COME IN CONTACT. NOR, IS IT SIMPLY THE RESULT OF MATURITY.

LAURIER WAS NOT A CHILD WHEN HE BOASTED THAT THE 20TH CENTURY WOULD BE CANADA'S CENTURY. HE AND MANY LIKE HIM WERE SIMPLY EXPRESSING CONCLUSIONS THAT APPEARED, AND STILL APPEAR, ^(as they should appear) OBVIOUS WHEN A SIMPLE INVENTORY OF THE RESOURCES OF THIS COUNTRY IS TAKEN. HOWEVER, OUR ECONOMIC HISTORY - SHORT AS IT IS - HAS BEGUN TO POINT OUT FACTORS THAT CHALLENGE OR AT LEAST QUALIFY THE SIMPLE BELIEF THAT THE TRANSITION OF NATURAL WEALTH TO ACTUAL

ECONOMIC WELL-BEING AND SECURITY IS AUTOMATIC. *that is will be undertaken in a rational policy process. B I say that because - the history of the dev. of our natural resources -*
 MUCH OF OUR STOREHOUSE OF NATURAL WEALTH IS MADE UP OF RESOURCES *has been heavily* THAT ARE NON-RENEWABLE. A NON-RENEWABLE RESOURCE - NO MATTER WHAT ITS *irrational* INTRINSIC VALUE - CAN ONLY BE *utilised* ~~DEVELOPED~~-ONCE. AND THE POTENTIAL BENEFITS TO *Others* BE DERIVED FROM THAT DEVELOPMENT RANGE ALL THE WAY FROM PLENTIFUL TO MINIMAL. *in the context of national policy.*

THE PRESSURE FOR THE EXPLOITATION OF OUR NATIONAL WEALTH MOUNTS DAILY. AND YET, IF WE DO NOT CARRY OUT THAT EXPLOITATION WITH SHREWDNESS AND SOPHISTICATION, WE STAND A GOOD CHANCE OF SQUANDERING OUR BIRTH RIGHT. GEOLOGICALLY, A GOOD PART OF OUR FORTUNE MAY, INDEED, LIE BENEATH OUR FEET. *our policies* BUT ECONOMICALLY, THE POTENTIAL VALUE OF THAT FORTUNE LIES IN OUR HEADS, AND OUR STATUTE BOOKS.

WHILE I AM PREPARED TO ARGUE THAT THE ESSENCE OF MY ANALYSIS IS RELEVANT TO ALL FORMS OF RESOURCE DEVELOPMENT, I WILL CONFINE MY ILLUSTRATIONS TO THE GENERAL AREA OF METAL AND MINERAL MINING.

THE DEVELOPMENT OF THESE RESOURCES GENERATES INCOME IN SEVERAL

WAYS:

- A) YOU HAVE THE BASIC ACTIVITIES OF EXPLORATION AND DEVELOPMENT,
- B) YOU HAVE THE SALARIES AND WAGES DIRECTLY OR INDIRECTLY RELATED TO THE ACTUAL RECOVERY AND PROCESSING OF THE RESOURCE,
- C) YOU HAVE THE NORMAL RETURNS TO CAPITAL OR MANAGERIAL INCOME THAT WOULD BE PART OF ANY SUCCESSFUL COMMERCIAL ENTERPRISE - RESOURCE-BASED OR OTHERWISE, AND
- D) YOU HAVE THE PRODUCTION OF A SURPLUS OR "SUPER-PROFIT" OR - AS THE ECONOMISTS PREFER - ECONOMIC RENTS; THIS IS THE AMOUNT BY WHICH YOUR EARNINGS EXCEED BOTH EXPENSES AND A STANDARD RETURN FOR MANAGERIAL SKILL.

IN ESSENCE, THESE SUPER-PROFITS ARE A REFLECTION OF THE INTRINSIC VALUE OF THE NATURAL RESOURCE ITSELF.

A MINER LOOKING FOR GOLD PROBABLY DOESN'T WORK ANY HARDER THAN A SHOEMAKER REPAIRING YOUR FOOTWEAR. BUT IF HE IS SUCCESSFUL, HIS PROFITS WILL BE ENORMOUSLY GREATER BECAUSE WHILE BOTH EXPAND A CERTAIN AMOUNT OF SKILL AND ENERGY, ONE PRODUCES A PRODUCT WHOSE VALUE IS LARGELY MADE UP OF THAT SKILL AND ENERGY WHILE THE OTHER RECOVERS A SUBSTANCE WHOSE OWN INTRINSIC, NATURAL VALUE IS EXTREMELY HIGH.

policy

AT THIS POINT, GEOLOGY LEAVES OFF AND POLITICAL ECONOMY COMES TO THE FORE.

GIVEN THE INDISPUTABLE FACT THAT NATURAL RESOURCES ARE PUBLIC RESOURCES, AND GIVEN THE TRADITIONAL CANADIAN ASSUMPTION THAT OUR NATURAL RESOURCES ARE THE CORNERSTONE OF FUTURE WELL-BEING, THE BASIC ^{TASK} ~~JOB~~ OF GOVERNMENTS - IN FACT THE BASIC ^{TASK} ~~JOB~~ OF SOCIETY AT THE WHOLE - IS TO:

- A) RECOVER THE LARGEST POSSIBLE PROPORTION OF THE INTRINSIC VALUE OF OUR RESOURCES HAVING, OF COURSE, DUE REGARD FOR THE RECOMPENSE OF THE SKILLS NECESSARY TO ACCOMPLISH THIS RECOVERY,

- B) TO SO CHANNEL THE WEALTH THUS RECOVERED THAT WHILE THE ORIGINAL RESOURCE ITSELF IS CONSUMED-BEING, AS WE HAVE SAID, NON-RENEWABLE - THE VALUE OBTAINED FROM ITS CONSUMPTION OR SALE IS PROPERLY INVESTED AS THE BASIS FOR FUTURE ECONOMIC GROWTH.

IN OTHER WORDS, WE KNOW THAT ANY DEVELOPMENT OF NATURAL RESOURCES, WHETHER BY PRIVATE OR PUBLIC, OR JOINT PRIVATE-PUBLIC ENTERPRISE, WILL YIELD INCOME IN THE FORM OF SUPPLY PURCHASES, EXPLORATION OUTLAYS, OPERATING PAYROLLS AND A BASIC RETURN ON INVESTMENT CAPITAL OR MANAGERIAL SKILL. BUT, ALL OF THESE ARE RELATIVELY SHORT-LIVED, ONCE-AND-FOR-ALL BENEFITS WHICH REALLY PERTAIN ONLY TO THOSE DIRECTLY INVOLVED IN THE EXPLOITATION OF THE RESOURCE. THE REALLY IMPORTANT QUESTION IS WHAT HAPPENS TO THE SURPLUS, OR SUPER-PROFIT, OR ECONOMIC RENT THAT IS OBTAINED OVER AND ABOVE ALL OF THIS AS WE CASH IN OUR METALS, OUR NATURAL GAS OR OUR OIL. TO PUT IT IN MINERS' LANGUAGE, THIS SURPLUS IS OUR "GRUB-STAKE" FOR THE FUTURE. IT IS A GRUB-STAKE THAT BELONGS TO THE PUBLIC AS A WHOLE. IT CAN BE INVESTED IN A THOUSAND DIFFERENT WAYS MOST OF WHICH ARE ONLY REMOTELY CONNECTED WITH THE RESOURCE SECTOR OF OUR ECONOMY.

HERE WE ARE NOT TALKING ABOUT TAXATION. TAXATION IS BASICALLY A CHARGE ON INCOME OR ACCUMULATED INCOME. HERE WE ARE TALKING ABOUT THE OWNERSHIP AND CONTROL OF SOCIAL WEALTH TRANSFORMED FROM A PARTICULAR NATURAL RESOURCE TO AN ENDURING CAPITAL FORMATION.

WHEN GOLD WAS FOUND IN THE KLONDIKE IT MADE A LOT OF MINERS AND DANCE HALL GIRLS RICH AND IT IS PROBABLY TRUE THAT THE POLITICAL AUTHORITY OF THE DAY EXACTED ENOUGH IN THE WAY OF TAXATION TO PROVIDE ^{LOCAL} ~~FOR THE SOCIAL~~ SERVICES THAT WERE NEEDED. BUT NEITHER THE PUBLIC AUTHORITIES NOR THE PRIVATE ENTREPRENEURS FELT CONSTRAINED TO RELATE THE ULTIMATE INVESTMENT OF THE SUPER-PROFIT THAT REFLECTED THE ENORMOUS VALUE OF THE GOLD ITSELF TO ^{THE} FUTURE ECONOMIC EXPANSION OF THE REGION THAT YIELDED THEM. AROUND THE WORLD THERE ARE CAPITAL STRUCTURES MANIFESTED IN EVERYTHING FROM COMPUTER COMPANIES, TO RAILROADS, TO ELECTRONICS TO... ^{--- whatever?} ~~..... GOD KNOWS WHAT,~~ THAT WERE BUILT ON KLONDIKE GOLD. BUT THE KLONDIKE ITSELF AND THE PEOPLE WHO REMAINED THERE HAVE NO SHARE IN ANY OF IT.

*Nowadays - Perhaps not in 60 yrs
but in 30 yrs. A*

STOREHOUSES OF NATURAL VALUE HAVE A WAY OF BECOMING KLONDIKES AND IT IS THE SACRED DUTY OF THOSE ENTERPRISES WHO CONTROL SUCH STOREHOUSES, WHETHER THEY ARE PRIVATE OR PUBLIC, TO SEE TO IT THAT THIS DOES NOT HAPPEN.

HOW HAVE WE, AS CANADIANS, FAIRED IN THIS RESPECT?

IN TERMS OF THE COMPONENTS (I LABELLED A, B, AND C) EXPLORATION EARNINGS, SALARIES AND WAGES DERIVED FROM OPERATIONS, AND THE NORMAL

RETURNS TO CAPITAL OR MANAGERIAL SKILL - OUR PERFORMANCE IS PERHAPS TOLLER-
ABLE. THE PEOPLE WHO RECEIVE THIS INCOME ARE LARGELY RESIDENT IN
CANADA AND THE BENEFITS OF THIS INCOME, THROUGH PRIVATE CONSUMPTION
OR THROUGH TAXATION AND PUBLIC SPENDINGS, ARE LIKELY TO REMAIN HERE.
HOWEVER, THE PRESENT NATURE OF OUR RESOURCE INDUSTRY AS FRAMED BY
THE TAX LAWS AND ECONOMIC POLICIES OF THE FEDERAL GOVERNMENT IS SUCH
AS TO INVITE THE INCREASING DOMINATION OF THE INDUSTRY BY THE MULTI-
NATIONAL CORPORATION. AND WITH THAT GOES THE CONTROL OF THE ALL-
IMPORTANT GRUB-STAKE OF OUR FUTURE ECONOMIC EXPANSION. OPERATING UNDER
THIS POLICY FRAMEWORK, THE MULTI-NATIONAL CORPORATION HAS NO MORE
RESPONSIBILITY FOR THE FUTURE OF CANADA THAN THE SOUR DOUGHS HAD FOR THE
KLONDIKE. (DELIBERATELY AND DRAMATICALLY) AND YET, WE KNOW THAT THE
RESOURCES THEY EXPLOIT CANNOT BE REPLACED. AND THAT THE FUTURE OF THIS
COUNTRY DEPENDS ON OUR USING THESE RESOURCES TO MOVE FROM THE POSITION
OF PRIMARY PRODUCER TO THAT OF MODERN INDUSTRIAL ~~POWER~~ ^{SOULS} WHETHER THAT
INDUSTRIAL POWER IS MANIFESTED IN THE FORM OF THE RENEWABLE RESOURCES
OF AGRICULTURE ^{Hydro} AND FORESTRY OR THE TECHNICAL SKILLS OF SCIENCE AND
INDUSTRY. THIS POLICY FRAMEWORK NOT ONLY JEOPORDIZES THE FUTURE
DIVERSIFICATION AND EXPANSION OF OUR ECONOMY AS A WHOLE, BUT ALSO PLACES
A VERY SEVERE HANDICAP ON ALL ENTERPRISES THAT NOW OPERATE IN THE LABOUR
INTENSIVE AND HIGH WAGE MANUFACTURING AND SERVICE SECTORS OF OUR
ECONOMY.

THIS GENTLEMEN - AND I APOLOGIZE IF I TOOK A LITTLE TIME TO
COME TO MY BASIC POINT - IS WHY THE GOVERNMENT OF MANITOBA IS SO
STRONGLY DEMANDING THAT THE FEDERAL GOVERNMENT REVISE ITS BASIC RESOURCE
POLICY AND REMORK ITS OVERALL ECONOMIC OBJECTIVES. IT IS OUR FIRM
CONVICTION THAT A RATIONAL, LONG-TERM DEVELOPMENT POLICY FOR CANADA
MUST EMPHASIZE THE FOLLOWING PRINCIPLES:

A) THE TAXATION POLICY COVERING THE RESOURCE INDUSTRY
MUST BE BROUGHT INTO LLINE WITH THAT PERTAINING TO
OTHER SECTORS OF OUR ECONOMY SO AS TO INCREASE THE
RESOURCES AVAILABLE TO BOTH FEDERAL AND PROVINCIAL
GOVERNMENTS FOR JOB CREATION AND SOCIAL DEVELOPMENT
AND TO END THE DISADVANTAGE UNDER WHICH THE OTHER

SECTORS NOW OPERATE, *Eg. Other sectors such*

*as manuf., agric., distributive, retail, service
industries have a ratio of taxation rel. to Book Profit*

B) THE TIME AND NATURE OF RESOURCE DEVELOPMENT MUST
BE TUNED TO ECONOMIC BENEFITS DERIVED BY SOCIETY
AS A WHOLE, (INCLUDING THOSE COMMUNITIES LOCATED IN
OUR MAJOR RESOURCE AREAS), RATHER THAN TO THE SHORT-
TERM PROFITS OF INDIVIDUAL CORPORATIONS, AND

*a a close ratio
to each other
1 to 1 over
1.5 to 1
but ~~some~~ mining
& petro. have
a ratio to those
others of
3 to 1 & 5 to
1 respectively.*

C) THE SUPER-PROFITS OR ECONOMIC RENT DERIVED FROM RESOURCE EXPLOITATION MUST BE DELIBERATELY CHANNLED TO THE DIRECT EXPANSION OF THE GENERAL CANADIAN ECONOMY THROUGH CONTROLS OVER ITS INVESTMENT BY PRIVATE ENTERPRISES, JOINT PUBLIC-PRIVATE ENDEAVOURS (AND I CITE THE PANARCTIC

EXPERIMENT AS A MODEL FOR THIS) OR, WHERE APPROPRIATE, COMPLETELY PUBLIC UNDERTAKINGS. *Pan Arctic is the best*

policy response to come from fed gov. relative to resource dev. in Cdn. in our time in past generation. THERE IS ONE FINAL POINT I SHOULD LIKE TO MAKE. THROUGHOUT we need

MY TALK I HAVE EMPHASIZED THE IMPORTANCE OF RESOURCE PROFITS AS A *100 equivalent* SOURCE OF CAPITAL FORMATION FOR THE FUTURE EXPANSION OF THE GENERAL *1 Pan Arctic* ECONOMY. OF COURSE, IT IS TRUE THAT THIS IS NOT THE ONLY SOURCE OF *a Pan Cdn.* CAPITAL FORMATION. A GOOD DEAL OF INVESTMENT IN THE FUTURE WILL COME - *Res. Dev. & Expd.* ALBEIT ONLY AFTER A GOOD DEAL MORE EFFORT - FROM OTHER AREAS OF *Co.*

CURRENT ENDEAVOUR. AND WHEN I HAVE THE OPPORTUNITY TO SPEAK ~~IN TORONTO~~ *on this or related subjects* AGAIN I WOULD LIKE TO ~~TAKE SOME~~ EXPRESS THE UNEASINESS THAT

MANY OF US IN PUBLIC LIFE - ESPECIALLY THOSE OF US WHO COME FROM OUTSIDE CENTRAL CANADA - FEEL CONCERNING THE CURRENT TRENDS WHICH SEE SO MUCH OF THE CAPITAL GENERATED ACROSS THIS LAND FUNNELED TO MONTREAL AND TORONTO AND THENCE THROUGH MUTUAL FUNDS AND VARIOUS INSTITUTIONAL INVESTORS OUTSIDE OF CANADA ENTIRELY. THIS TOO IS PART OF OUR GRUB-STAKE FOR THE FUTURE, AND THIS TOO IS A TOPIC THAT WE FEEL IS IN URGENT NEED OF SERIOUS REVIEW. HOWEVER, I KNOW THAT MY TIME IS RAPIDLY COMING TO AN END AND THAT YOU PROBABLY HAVE SOME QUESTIONS FOR ME, SO I WOULD LIKE TO LEAVE YOU WITH THIS PERSONAL OBSERVATION:

GENTLEMEN, TO MY MIND, LAURIER WAS RIGHT. THIS CANADA OF OURS DOES HAVE AN ENORMOUS POTENTIAL. THE QUESTION IS, DO WE FOLLOW THROUGH?

~~AND FORESIGHT TO GO WITH IT?~~

Do do we continue ~~to~~ witness in the past witnessing the irrational phenomenon of cross flows of capital ^{THANK YOU} from Cdn. to U.S. & U.S. to Cdn. which has resulted thus far in Cdn. resources come under heavy foreign equity ownership while Cdn. investable funds actually available

go into AT&T; J & J; S&B did it seems - ^{just about} every 3rd major debenture issue in the U.S. capital market.

Citizens of the U.S. are becoming even more puzzled than Cdn. as to the reasons for this. Answers should be forthcoming. In the meantime if Cdn. fin. institutions are incapable of marshalling funds for I in Cdn. Resource dev. (which I don't believe) Cdn. gov. should not aggravate the problem by borrowing on the Cdn. market heavily. If we need capital let it be debt capital - not equity capital.

Some years back the test was... did the test... did the test...