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Finances

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Notes for Remarks by
Finance Minister John N. Turner
to the Canadian Club of Toronto
Royal York Hotel
Friday, March 23, 1973

substantial reduction in unemployment.

After a weak third quarter, the economy rebounded very strongly in the last three months of 1972, growing in real terms at an annual rate of 10.4 per cent. But progress in reducing the number of Canadians without jobs lagged behind. By December the level of unemployment still had declined only to 6.7 per cent from a peak of 6.9 per cent in September.

During the first two months of 1973 there has been quite a dramatic improvement in the situation. The level of unemployment in seasonally-adjusted terms dropped to 6.2 per cent in January and then to 5.9 per cent in February. The number of Canadians with jobs last month was up by 355,000, 4.5 per cent over the level in February a year ago. Between January and February this year there was a record increase in employment in actual terms of 90,000.

While this significant reduction in the level of unemployment in the face of exceptionally strong growth of the labour force is cause for some satisfaction, it is no consolation to the men and women in this country still out of work. My on-the-job training of the past 14 months has taught me the hard lesson that a Minister of Finance can take nothing for granted. But at the moment, it is evident that the economy moved into 1973 with a strong head of steam.

The growth in real GNP of 5.5 per cent for the whole of last year was substantial, but still fell short of my projection last May because of the slowdown

Mr. Chairman, I very much welcome the opportunity to make what has by now become an annual pilgrimage by the Minister of Finance to address members of the Canadian Club of Toronto.

On looking back at my remarks to you nearly a year ago, I find that many of the issues I touched on at that time are still matters of pressing concern today - although there have been a number of important developments during the intervening months.

I spoke then of jobs as being my first priority and of my concern to promote stronger economic growth in order to increase permanent and productive employment for our rapidly growing labour force.

I referred to the need to achieve more basic and lasting reform of the international monetary system than had been accomplished by the Smithsonian Agreement of December, 1971. And I expressed hope that the first tentative move that had just been launched toward further reform and liberalization of the world trading system would be sustained.

I spoke also of our need as Canadians to get out and hustle in a world that is becoming more fiercely competitive with every passing day and of the need to develop new industrial policies that will make it possible for us to compete effectively.

As I indicated in the budget which I put before the House of Commons over a month ago, my first and foremost concern remains that of bringing about a

in the third quarter. Business capital investment also picked up more slowly than I had expected. This was probably the result of a variety of reasons - extensive strikes in the construction industry, uncertainty surrounding the corporate measures in the budget last May, and uncertainty stemming from the unsettled international situation.

The budget which I brought down in the House of Commons on February 19 reinforces and builds upon the budget which I put before the House last May. Both are aimed at injecting continued heavy stimulus into the economy so as to generate strong growth of production and employment, but in a non-inflationary way, relying more upon tax cuts than upon direct expenditure. The May 1972 budget was aimed in particular at promoting the expansion of our vital manufacturing and processing industries by enabling them to become more competitive at home and abroad with foreign corporations both in terms of price and of product. The budget last month is aimed both at generating continued strong economic growth and bolstering our international competitive position by containing inflationary pressures here at home.

The major reduction in personal income taxes proposed in the budget will significantly increase the take-home pay of Canadians. This will help to buttress continued strong economic growth by promoting further increases in consumer spending. At the same time it will also help to check the spiral of cost-push inflation by easing the squeeze of rising prices on family budgets and on our economy as a whole. The same purpose will be served by the temporary reduction of tariffs on \$1.3

billion worth of imports of a wide range of foods and other products, by the elimination of the sales tax on all children's clothing and footwear and on all non-alcoholic beverages and near-foods, and by the abolition of the special 10-per-cent excise tax on a wide range of articles once considered luxuries that have now become almost necessities in our more affluent society.

The proposal to offset automatically the impact of inflation through the indexing of personal income taxes will further moderate the weight of taxes next year and in the future.

In the budget, I anticipated the possibility of very strong economic growth this year, with real national output perhaps increasing by around 7 per cent. Whether this goal will be reached, however, depends on a number of important factors.

As I indicated to the House, we will need at least average good fortune - including fair crops, labour peace and international stability. As demonstrated by the experience of the past few years - indeed, the past few weeks - this kind of good fortune can by no means be taken for granted.

Certainly at this point no one can foretell how bountiful our crops will be this year.

With union contracts coming up for negotiation this year covering more than one million Canadian workers, there can be no ready assurance that the labour front

will be relatively peaceful. I am reasonably optimistic, however, that both business and labour will seek to avoid the kind of strife that so adversely affected the growth of production and employment last year. I am equally hopeful that the increase in the take-home pay that Canadian workers will receive as a result of the reduction in personal income taxes will help to contribute to a better climate for the negotiation around the bargaining table of fair and reasonable settlements.

As a major international trading nation and one whose borders are more open than those of virtually any other industrial country to the inflow and outflow of capital, Canada is particularly vulnerable to the severe stresses and strains that have developed in the world economy in recent years.

When I spoke to you last spring there still seemed to be some reason to hope that the international agreement reached at Washington the previous December would serve to ease speculative pressures and allow sufficient time to work out a more fundamental and enduring reform of the world monetary system. These pressures again began to build up, however, eventually forcing a number of countries to float their currencies - successively the British, the Swiss, the Japanese and the Italians. Many nations faced the same dilemma despite their efforts to insulate themselves by adoption of a complex series of exchange controls.

As all of you will be well aware, a new crisis came to a head only within the past several weeks, a crisis that was barely stemmed at all by the further

recent international upheavals have put a strain on the intangible and elusive element of confidence here at home that is so important a factor in ensuring the continued strong growth of our economy and particularly of capital investment.

The problems of the world monetary system are not the only developments abroad that have an impact on us here in Canada. We also have cause for concern about the strong inflationary pressures that have developed in a number of industrial countries. These pressures, which are one important cause of instability of the monetary system, could also undermine our own attempts to establish reasonable price stability in this country.

And we are worried as well about the future of the international trading system. Over the course of the past year, the western industrial nations have continued their movement toward a new series of negotiations aimed at the further reform and liberalization of world trade - a move that is closely related to reform of the international monetary system. If a viable solution is not found soon to the monetary and trade problems, the risk of new trade barriers will become very real.

At the outset of my remarks I recalled that when I last spoke to you I underlined the need for Canada to develop new industrial policies to meet the increasingly intense competition confronting us around the world. The threat that we face, however, is not only one of more acute competition. We also face the danger that

the major trading nations of the world may move toward greater protectionism rather than toward liberalization of world trade.

The budget which I introduced last May proposed the first step in a new coherent set of industrial policies to help meet these twin threats of competition and protectionism. I would emphasize that the measures proposed are only a first step, although a major one. Other policies are required - policies, for example, to promote increased research and development, to strengthen our patent system, and to promote greater rationalization of secondary industry.

To reinforce the structure of our economy over the medium and longer term, I sought in that budget to strengthen the competitive position at home and abroad of our vitally important manufacturing and processing industries. I proposed to do this by reducing their top corporate tax rate to 40 per cent beginning in 1973 compared with 46 per cent by 1976 for other corporate taxpayers and by allowing for the rapid two-year depreciation of machinery and equipment which they acquired after budget night.

The manufacturing and processing sector is the largest single source of employment in this country. It provides jobs directly for nearly two million Canadians - nearly a quarter of the whole labour force. It provides jobs indirectly for as many again in the service sector, which depends for its growth on the underpinning of viable primary, processing and manufacturing industries.

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As I have stressed many times, the manufacturing and processing sector is the most vulnerable of all to the adverse impact of international forces. It has been handicapped by the appreciation of the Canadian dollar since May, 1970. Its position both at home and abroad has been seriously jeopardized by the substantial tax subsidies for exports made available to U.S. corporations through the DISC scheme. It continues to be threatened by other protectionist moves afoot in the United States. And it is highly exposed to the increasingly strong competition from the new industrial giants emerging on the world stage - Japan and the enlarged European Economic Community.

For all of these reasons, I believe that it remains absolutely essential for us to take steps to bolster the competitive position of our manufacturing and processing industries.

As I am sure all of you are acutely aware, these measures were not approved by the last Parliament because of the press of other business - which, of course, has limited their impact to date on the economy generally and the manufacturing sector in particular. In my budget speech last month I made clear my intention to reintroduce these corporate measures at an early date in the new Parliament. But you are equally aware that this new Parliament is a House of Minorities - all of which makes for a House that is full of uncertainties.

You are undoubtedly as well aware as I am that this is - to say the least - a highly charged political issue. While the temptation is strong, I will not try not to impose on your hospitality by indulging

in political partisanship.

I can only very much hope and trust, however, that after all the dust has settled away these measures will command the support of a majority of Members of Parliament.

I base that hope and trust on a strong conviction, one that I expressed to the House in my last budget. "What is at stake," I emphasized, "is not the welfare of corporations and their shareholders. At stake is the welfare of every Canadian. At stake are hundreds of thousands of jobs that today depend on our manufacturers staying in business and retaining their workers. At stake also are hundreds of thousands of good steady jobs in the manufacturing sector and supporting industries that will be required in future across Canada for our new workers. It is critical that we should all have a clear understanding of what is at issue. That is why I am committed and the government is committed to these measures."

In view of what is at stake, I would think that any member of any party in Parliament would have serious reservations about putting partisan interest ahead of the national interest. We just can't afford to play politics with Canada's future. You will perhaps permit me to suggest that consideration applies with particular force to the Conservative Party, whose leader has said in the past he supports these measures and who has said he would have implemented them if he had formed the government.

I have examined Mr. Stanfield's statement

to the press on the subject of the corporate tax measures and I am not moved to change what I have said to you today.

There is another important consideration with regard to these corporate measures that must be taken into account and that is the over-all amount of stimulus to be injected into the economy as a result of the fiscal policy of the government.

You may recall that the net effect of the budgetary and non-budgetary positions projected in the February budget was a total federal cash requirement in the new fiscal year beginning next month of \$2 billion - the same as that forecast for this year.

In my speech, I anticipated that we would be criticized from some quarters for doing too much to stimulate economic growth and from others for not doing enough. For my own part, I recognized that we were running a risk and I regarded the risk as being on the side of over-shooting. I think that on the whole the consensus among businessmen and economists is that the amount of stimulus we have proposed is just about what is required under all circumstances to promote strong but steady growth.

Of course there are always those who want to drive the economy forward at full throttle. They are the ones who are always most surprised and angered when a boom turns into a bust. Those who belong to that school naturally believe that the budget is not sufficiently expansionary. By way of contrast, however, I might

point out that in its recent survey of Canada, the Organization for Economic Co-operation and Development - which is certainly very growth-conscious - specifically cautioned us about the danger of creating inflationary pressures by trying to drive the economy forward too hard and too quickly.

The fact is that a significant part of the fiscal stimulus to be injected through the budget for the next fiscal year is predicated upon the adoption of these corporate measures. The failure of Parliament to approve them, therefore, would result in just that much less stimulus being applied to the economy in the months ahead.

While this consideration is undoubtedly important, it pales by comparison with the pressing need to provide Canadian manufacturers and processors with the additional financial resources they require to become more competitive and more innovative, to develop new and better products and technology, and to undertake the additional capital investment required to provide more jobs for Canadian workers.

Last May I predicted a tough competitive world would face Canadian products. If anything, the current monetary situation with its implications for world trade has made my warning even more urgent. The purpose of the tax cuts is jobs. It has been suggested that I have had too much confidence in free enterprise and Canadian businessmen. I have been told that business won't produce the jobs, that business will not set competitive prices; that business will maximize profits

to the detriment of reasonable prices and more jobs. If that turns out to be true, you will have a different finance minister with a different philosophy.

If we believe in a free enterprise system, then the prospect of a reasonable return on capital is a prerequisite to investment. Investment is essential to an increase in productive capacity which in turn is essential for more jobs. When businessmen look at the prospect for a reasonable return on capital, they look at what the whole world has to offer. I am offering Canadian businessmen an incentive to invest and expand in Canada on terms that give them a fighting chance against very tough competition.

When I talk about Canadian business, I don't mean just big business. Small business has to be able to compete as well. This is why I removed the restraint on re-investment of income for small business, so that more of them may qualify more easily for the low 25-per-cent rate. This is why I have proposed that the 25-per-cent rate be reduced to 20 per cent for small manufacturers and processors. This is why I am committed to improve small business' access to capital, to technology and to management services.

I believe that Canadians are concerned about world competition and their ability to compete in order to survive and prosper. I believe Canadians are too smart to be conned for very long by rhetoric about the corporate rip-off. They know that a corporation consists of people - workers, clerks, middle management, executives, shareholders. Each of them gets a piece

of what the corporation makes and each of them pays taxes on his share. Our Canadian system is not perfect and there is always room for improvement. But it is still the only alternative we have to the government running the whole show. I have not seen any evidence that the Canadian people want that kind of system.