

ADDRESS TO  
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"1975 TURNAROUND - A BETTER YEAR THAN PEOPLE THINK"

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Mr. Chairman, Colleagues from the securities industry,  
Ladies and Gentlemen:

I intend to do my best to start us off on the right foot for 1975. This is a frankly optimistic speech because I do believe that we will see a turnaround in the Canadian economy this year and that it will prove to be better than many people now think - particularly if we get at it with some vigour and confidence.

For some time many Canadians have been concerned that the daily inundation of bad news, tragedies and frustrations, either achieved or forecast, may distort our judgement and that we will lose confidence in our country, our businesses and ourselves. Indeed, there is a good deal of evidence that this process is already well advanced in Canada as in all countries in our civilization. A number of people are making a good living by describing the inevitability of the process of doom and by advocating ways and means by which individuals might protect themselves in the short-run by in fact opting out of society.

We have perfected the technology of communicating bad news achieved or threatened wherever it happens anywhere in the world instantaneously and dramatically. We badly need now a new technology which we might call "the technology of the perspective" to help us balance things up, to refresh our minds of the pluses, as well as the minuses in our daily lives and thus find within ourselves the vigour and courage required to deal with problems as best we can and the realities of Canada in 1975; for we are, indeed, fortunate to be living in Canada in 1975.

I suppose the mechanisms of our consciousness, our central nervous systems, resemble large, sophisticated computers in many respects. There are at least two ways I know of to wreck computers or to obtain disastrous results. One, of course, is by stuffing so much input in at the front end that the wires cannot handle such a mass of stimuli and quit. The other is by inputting such incorrect or distorted information that the results on the output side are incorrect and distorted. We have probably been doing both of these things to ourselves now for many years. That we have been able to survive this at all proves how much more resilient and adaptable our central nervous systems are than anything that man has ever designed. This, I submit, is the really essential point that the "Doomsday" exponents miss in all their calculations and prognostications. The most important thing to keep in mind as we contemplate the future and our ability to deal with it is that the human structure is a wondrous thing. As history has repeatedly shown, we are remarkably adaptable to the most trying circumstances; human beings do survive, do adapt and, indeed, learn and progress over time.

Even in the very short-run I submit that Canadians learned a good deal in 1974 and that across the country now there is, for example, a much greater understanding of economic realities. Inflation, recession and shortages have taught most of us useful lessons about taking for granted a number of things which we have not sufficiently appreciated and perhaps have even abused in recent years. I think the experience has also made most Canadians appreciate better than ever before that our prospects for taking more out of the economic system for desirable social goals turn very directly on improving our national economic performance. I think that for the first time, in my lifetime anyway, Canadians in and out of government are seriously concerned about levels of aggregate government expenditure as a percentage of our gross national product and that citizens across the country will insist increasingly on an economic framework of opportunity within which they can retain a rather larger proportion of their incomes for spending by themselves rather than collectively. In short, as we meet here today, I observe and am prepared to debate the proposition that the opportunity for the private sector to increase its role and responsibility in the Canadian scene is more favourable than for many decades.

Our continued success as a country and a civilization turns very directly on confidence based on an accurate balanced perception of our present condition and future prospects and our resolve to progress. It would be folly to ignore problems, constraints, international realities and so

forth, but it would be fatal not to conclude that (1) we have many strengths as well as weaknesses; (2) our problems are not insurmountable; and (3) perhaps most important of all, that each one of us has in his own way great opportunities to make 1975 a much better year for himself and his country.

#### BUSINESS OUTLOOK 1975

The economic scenario unfolding before us as we enter 1975 is one of continuing problems of inflation, weakening aggregate demand in most countries and a number of uncertainties on the Canadian and international scene. There now appears to be a consensus that the economy will grow very slowly indeed, if at all, in real terms during the first six months of the year and then, depending largely on developments in the United States, pick up considerably in the third quarter. For the year as a whole, growth in real terms should be in the order of 3 percent. By the fourth quarter, we can attain close to the optimum growth rates of 5.5 percent and, indeed, there is considerable evidence that the current round of inflationary pressures has already started to recede. It would appear that the forecastable rate of inflation for the year as a whole will be 10 percent, 12 percent during the first six months and 8 percent during the second half of the year.

The latest Federal budget is, of course, a skillful attempt to deal with immediate problems of weakening aggregate demand and to make some contribution to inflationary problems by encouraging investment and productivity and hence the supply of goods and services. One of the problems, of course, in federal budgeting in Canada is this country's heavy reliance on external demand, particularly from the United States. Indeed, all Canadian forecasting, must make the best possible assumptions about the pace and nature of economic development in other countries and be prepared to adjust should these assumptions prove in time inappropriate.

Our fiscal and monetary stance at this time appears to be the correct one to qualified outside observers. Indeed, the OECD is predicting a growth rate of 3.5 percent in Canada in 1975 in real terms. This is expected to be the best of any developed country. We are also conducting ourselves as good international citizens by not attempting to export our problems to those of our main trading partners who have even bigger problems of their own. We will make a substantial

contribution to the adjustment process required in the international payments system by running a substantial current account deficit during the year.

Many responsible people here would prefer to see a slightly different balance between measures to deal with problems of aggregate demand and measures to deal with inflation. There is always room for honest differences of judgement in these matters but I believe that it is fair to say that overall we do have an appropriate and intelligent framework within which to work in 1975.

Swifter progress in dealing with the third series of parameters - man-made uncertainties in the resources field and international debt financing is highly desirable. I am afraid that international uncertainties such as the unpredictability of the Arab oil, in terms of price and supply, are not apt to disappear quickly, although I do argue regularly that the Arab countries have, of course, a major interest in the prosperity of their customers and will increasingly respond to fair and businesslike opportunities for investing and recycling their foreign exchange earnings. In any case, at a time of continuing world uncertainties, this is not the time to be manufacturing further uncertainties at home.

#### SECOND NATIONAL ECONOMIC CONFERENCE

A remarkable consensus on the stance for Canada in this situation emerged from the Second National Economic Conference held in December 1st to 3rd, 1974. Organized by the Economic Council of Canada and comprising several hundred representatives of business, labour, government, consumers, universities, private citizens, the Conference considered reports prepared well in advance of each sector of the Canadian economy and on the major problems of inflation, manpower, productivity and shortages. In such a forum there were, of course, considerable divergencies of view on a number of issues and indeed, one of the Council's objectives is to identify and examine these divergencies, but here is the consensus as expressed by Dr. John Deutsch, Conference Chairman, who is, of course, as experienced, knowledgeable and balanced as anybody in Canada on these matters. My text contains the entire report of Dr. Deutsch's statement and is available from Mr. Rodway:

CHALLENGE FOR POLICYA SUMMATION BY THE CONFERENCE CHAIRMAN,  
JOHN J. DEUTSCHNATIONAL ECONOMIC CONFERENCE,  
MONTREAL, DECEMBER 3, 1974.

My task in concluding this Conference is to review briefly the major issues and priorities that it identified.

I cannot hope here to enumerate all of the specific conclusions and recommendations made in the findings of the 16 sectoral committees, the reports of the various workshops, and other documents that were prepared for this Conference. The Economic Council will direct these more detailed statements to the appropriate authorities. My role is rather one of detecting some of the common threads of concern about public policy in this country and the need to get on with some basic decisions.

It is apparent that we in this country have to sustain a high level of capital investment. This is essential to support employment as we approach what could become a recession, and to avoid the recurrence of shortages when the economy again is operating close to its full potential.

We will run into capacity limitations pretty quickly in many areas unless we maintain the extension of productive facilities in this country. One of the most critical areas is the energy field. The other is transportation, in which we are reaching capacity limits affecting very important regions of the country and their future.

We need also to maintain high levels of investment in order to achieve good levels of productivity. This is going to be heavily dependent on the extent to which we have modern facilities and modern equipment available to us.

Also, we need to maintain high levels of investment to restrain inflationary pressures in the future. When the economy revives from the recession, we will face again the inflationary test. The degree

of that inflationary pressure will depend on the extent to which we run into bottlenecks and shortages and lack of capacity.

Since for all these purposes we must have high levels of investment, we have to concern ourselves with the rate and course of inflation because - as has been pointed out in the Conference - and Conference papers excessive rate of inflation destroys our capital markets. We must have effective capital markets and ways to mobilize our savings. We run high risks here, with all the consequences that flow from it, if we are not able ourselves to finance the investments we require. Inflation is an enemy of effective capital markets. As we see now, the capital markets are in danger of collapsing under the pressure of high levels of inflation. It is very difficult under these conditions to borrow on a long term basis. Everything is pressing into the short-term markets. Yet, our needs are very long-term needs - energy, transportation, and the very large industries we are now trying to develop on a world scale.

There are many other reasons why we must concern ourselves with the rate and course of inflation in this country, because too rapid a rate of inflation produces many social inequities in our society. We are now engaged in various activities trying to overcome at least some of these inequities. Those affected are mostly the weaker elements in our society - the lower paid workers, unorganized workers. By inflation these people are handicapped; their claim on the country's resources is reduced.

Indexing can only operate to a limited extent to take care of this problem. Perhaps such measures are unavoidable if we are going to retain any kind of equity through an inflationary period. But indexing is not a general device to solve our problems of inflation. General indexing of everything would, in my view, simply exacerbate the very problem of inflation itself.

In the field of manpower, it is clear that individuals are more concerned now with a wider range of goals than has been customary in our society. With respect to the quality of work, satisfaction from jobs, and matters of this kind,

we are confronted with changing social goals, and these must be taken into account in all our manpower programs. The kind of jobs we are creating, the kind of training that is required, the conditions of work that become established - these and other factors now have to be considered by employers, and those in trade unions and in the educational and training system, in the light of these changing social goals.

I'm not trying to say we have given up the work ethic entirely. But what people are seeking out of their "jobs" (not of their "careers"), now comprises more than we have been accustomed to expect. As we get more prosperous we have wider choices about what we want to do with our lives. This has an effect on the kind of opportunities we offer people. All of us have to take that into account in trying to plan the futures of industry and other institutions.

There are effects, too, on the way we try to measure the changing levels and rates of economic activity. I'm convinced that our unemployment measurements don't mean the same as they did fifteen or twenty years ago. This business of using these manpower measurements as an indicator of the capacity of the economy is a much more tricky and dangerous pursuit than in the past. We now find that we have at the same time severe shortages of manpower in many areas, while the indicators we've used in the past seem to indicate that there is an overall big surplus. There are some very puzzling things in this picture. I think we need to modernize our approach to how we measure these matters and how we judge them. There is a vast field of work to be done here, and I hope those involved in this manpower area will address themselves to it. We now lack understanding of what is really going on.

Another area whose importance is changing in our society is agriculture. We have taken agriculture for granted for a long time. It has been a highly productive industry. Very few industries in this country have had greater productivity increases than agriculture over a long period of time. It has contributed greatly to our rising standard of life.

Also, agriculture has provided immense manpower for the rest of our society. We talk about immigration as being a great source of manpower. Well, the greatest source of manpower in Canada for the last

twenty years has been our own agriculture, by a long shot. It has provided more of the labour force increase than any other source. The movement out of agriculture has affected the shape of our society fundamentally. The enormous urbanization that we have seen, the explosion of these great cities that we live in, has come to a very large extent from the migration out of agriculture.

We have taken this industry for granted and everything that surrounded it. We cannot do that any more. We look now to this industry to deal with one of mankind's urgent problems, the problems of food and its cost and its price. Canada and the United States are going to be the major sources of food for international aid and trade. And so Canada is going to be very deeply involved in this very critical problem. Agriculture will make a sizable new claim on resources in this country both in capital and manpower, and also for technology and supplies. We have seen a major change in the position of this industry, and we must accept that in all policy-making in the future.

This Conference also expressed a concern with the clarity and certainty, timeliness and "steadiness", of government policy. We have many uncertainties here. There is lack of clarity in many of the major policy approaches and there is even conflict developing in some critical areas - actual open conflict. This results in delays in decision-making and lack of "steadiness", as it has been described here. Obviously this is an undesirable circumstance.

But what we must emphasize here is the consequence of delay. There is a long lag, usually, between the time you take a decision and the time you remedy the matter you are dealing with, especially in the field of public policy. If there are things that have to be done, you cannot simply keep putting them off and delaying your decision, hoping that you will stumble on something or somebody to solve the problem. By that time it is usually much too late. This is the thing I think is the most important in our circumstances. Whether it is energy, manpower, agriculture or food supplies, or transportation needs - any of these things - there is a long lag before we can remedy these matters.

The timing of decision-making is critical. If the decision is not made in time, the crisis cannot be avoided. Our political processes have got to realize this. We cannot afford the luxury of long, drawn-out and dramatic disputation across thousands of miles of territory and hope that someday, somehow, we will reach a decision, or some kind of compromise. If that decision, that compromise, is not timely, we cannot avoid the crisis. And there is no use afterwards saying, "Well, we couldn't do anything about it." And this applies to all these fields we have discussed at this Conference. We need timely decisions if we are going to deal with the problems we face, whether it's energy, transportation, agriculture and any of these basic problems the country has to deal with.

Finally, there is the critical question of inflation. We have discussed in this connection the steadiness of policy. In running our basic policies - that is, our monetary policies, policies of government expenditures, programs and public activities of all kinds - we have to keep our eyes on longer term goals, and these policies have to be consistent and steady. Stop-go, ad hoc, actions are never going to cope with the problems of inflation.

The main danger we face is that when we come to the next business revival, well, what platform do we start on. Do we start with nine of ten percent inflation? Where do we go from there? That is, I think, the most serious question we face as a country. Do we go off in the next round with levels of 15 or 20 percent inflation?

If that happens, I suspect we will see very important social and political changes in our society, and this is the very important question. Do we value the kind of society we now have, with its freedoms, its opportunities, its flexibility? Or do we invite some other social system or political system which will come out of a continued accelerated inflation? That would produce social stresses and social changes and strains that we will not be able to deal with except by different processes than we have been accustomed to. We must have steady, long-range policies if we are going to avoid these much larger dangers which the country might well face.

CAPITAL MARKETS IN 1975

I am very pleased to have been given an opportunity to work in the securities industry a few years ago. Having spent almost 25 years in the Department of Trade and Commerce in Ottawa and abroad in the field of trade and industrial development, it was, and is, a great opportunity to carry on this work from the other side of the desk. The savings and investment process lies at the heart of development and our success in building Canada and expanding opportunities for Canadians turns very much on the effectiveness and imagination of the securities industry in encouraging Canadians to save and invest and the capital market system which then allocates these savings to the many competing demands to finance business and government. The pricing mechanisms and liquidity provided by trading in secondary markets are integral to the system and I welcome this opportunity to acknowledge the contribution made to financing in all Provinces of Canada by my colleagues at the Toronto Stock Exchange and the Ontario Securities Commission. The Commission sets the pace in securities legislation in Canada and carries a heavy national responsibility for the effectiveness and integrity of our capital market system and indeed our business enterprise system.

The past year has been difficult for the securities industry. In 1975, capital markets will reflect the economic scenario described earlier and the industry will resume expansion. We will see high levels of new financing at improved values as the year progresses. Indeed, as secondary markets normally discount the economic scene several months in advance, it is reasonable to expect improvements in these values earlier in the year than the economic resurgence forecast for the third quarter. High and varying rates of inflation and major international uncertainties are, of course, destructive to capital markets here, or indeed in any country. These circumstances are major disincentives to save, to make long-term investments and to take long-term risks. This is why measures to deal with inflation occupied so much of the programme at the National Economic Conference and why anti-inflationary policies are such an essential ingredient to strong capital markets and a high level of Canadian development and investment.

Difficulties in the securities industry were, of course, world-wide in 1974 and in most countries decreases in values and levels of new financing were much more serious than in Canada. The Industrial Index on the Toronto Stock Exchange was 156.7 on December 31, down 34 percent from the 1973 high. The Dow Jones Industrial Index was 616.2

on December 31, 1974, down 41 percent from its 1973 high. There have been mergers and acquisitions. Capital has left the business, many bright people have left the business and, unfortunately, many new bright people who should have been hired, were not hired. Membership in the Investment Dealers Association of Canada consisted of 114 firms with capital of \$192 million in December 1973. It is now 104 firms with a capital of \$175 million. The securities industry is, I suppose, the best example of an industry which at a time of rising prices is least able to pass on higher costs to its customers and where, of course, inflation reduces demand for its services rather than the contrary.

In any case, I would like you all to know that we have survived and that we have retained the essential skills and facilities to make the capital markets that Canada requires this year and in future. It is now clear that some \$300 billion in new investment will be required in Canada by 1980. To achieve this Canadians will have to be encouraged to save more and invest more in their country and I would hope invest more in the form of equities, that is risk and ownership. The Minister of Finance went some way to encourage investment in his last budget with new incentives to invest and to invest in equities and I would hope that, as the priority he must attach to dealing with recession recedes, future Federal policies will add to the range of incentives offered to Canadians to invest in their country rather than spend their current income. We have given Mr. Turner and his colleagues a series of carefully worked out programs to encourage investment which they can incorporate in a federal budget as circumstances permit.

In aggregate terms gross savings in Canada are now running in the order of 22 percent of Gross National Product. This must be increased to 24 or 25 percent and increasingly focussed on equities if we are to achieve national goals of 5 percent growth in real terms and avoid serious unemployment. Although we were net capital exporters in 1970 and 1971, we are not likely to be in this position again in the immediate future and in addition to increasing savings available for investment at home it is appropriate that we look to international markets for financing, mainly, of course, in debt form.

In 1974, in a most difficult year, the Canadian securities industry was an essential ingredient in a capital market which nevertheless raised \$8 billion for governments

and business in the form of new bonds and debentures (\$5 billion in 1973), concluded \$6.6 billion of transactions in listed equities on our stock exchanges (\$9.4 billion in 1973) and undertook \$35 billion of short-term money market transactions (\$25 billion in 1973). The situation was particularly difficult in respect to new equity financing in the form of common shares where only \$200 million was raised, compared with \$400 million in 1973. A turnaround in equity markets is, however, now in sight and Canadian business will certainly take the opportunity to offer new issues of common shares. This should go some way to improving debt equity ratios in Canadian business and will establish a new basis for financing further expansion. It will also offer interesting new opportunities for Canadians to invest profitably and to acquire increasing ownership of our resources. In these circumstances, I commend to you greater reliance on the marketplace rather than government development corporations as the path to Canadian ownership.

Turning now, for a moment, to the position of the Canadian bond market - interest rates, reflecting extremely high demand for credit, rose steadily last year until October. Since then rates have tended to decline, the appropriateness of which has been confirmed by a reduction in the Bank Rate in mid-November and subsequent easing of central bank policy.

The federal government, thanks to an unusually favourable response to the 1974 series of Canada Savings Bonds, should not have to come to the market for cash in any major way in 1975. This should enable other levels of government and the private sector to obtain their requirements, which are expected to be larger than last year, without putting undue upward pressure on rates. Indeed, some strains may be removed from the market through the funding of short-term corporate indebtedness.

I forecast that 1975 will see a turnaround in equity markets and, indeed, that all capital markets in Canada will strengthen as the year progresses. It will, indeed, be a better year than many people think. We are fortunate to be living in a society where the course of events is still very much in our hands. I suggest we keep it that way by our performance.