



For release / Pour publication:

1 p.m. EST Monday, Jan. 9

Ottawa, January 9, 1967.  
67-4

Text of an Address by the Honourable Mitchell Sharp,  
Minister of Finance, to a luncheon meeting of  
the Canadian Club of Toronto, Royal York Hotel,  
January 9, 1967

AGENDA '67

A year ago I appeared before this Canadian Club of Toronto to open your 1966 season - my baptism of fire as Minister of Finance. I had been appointed to that portfolio only two weeks before. On that occasion I placed before you an agenda for 1966 - the principal economic tasks that lay ahead for Canada.

Here I am again, two budgets later, to open your 1967 season.

In preparation, I reread my speech of a year ago. This is a chastening experience for any speaker and most of all for politicians.

One prophecy I made, however, turned out to be completely accurate. I said a year ago that I had been discussing the report of the Royal Commission on Taxation with the Chairman, Mr. Kenneth Carter, and that it appeared that the report would not be finished before March, i.e. March 1966. That was right. It is still not finished but I now feel confident that most of the report, including the main recommendations, will be in my hands for tabling in Parliament before March 1967.

My officials tell me that I should try to arrange to take a week off free from all distractions to read this monumental work when it becomes available. A week free from distractions is not on the 1967 agenda of the Minister of Finance. This advice, however, reinforced my view that the public and particularly the lawyers and accountants should have some months to read, study and comment upon the report before the government formulates its position on the recommendations.

That is our intention. Moreover, I hope it will be possible to give the tax experts more than normal time to look at the various pieces of legislation introduced by the government before Parliament is asked to take final action.

After years of study, the Royal Commission is finally presenting its recommendations. The time it has taken is evidence of the complexity of the problems involved in revising Canada's tax structure. It is only reasonable that the public, the government and Parliament should take some months to understand and debate these recommendations and the legislation which may be based upon them.

So, to the accountants and the tax lawyers, I extend, with more than usual confidence, my best wishes for a prosperous New Year.

### Financial Institutions

Early in 1967, I expect that the revisions to the Bank Act will finally be approved. In this field, too, the legislation has benefited from the studies of a Royal Commission and from the rather prolonged legislative process, some of which, I grant you, was fortuitous and unintended.

Unquestionably, our financial institutions are in process of change and the legislative framework must be adapted to meet these changes. The current revisions of the banking acts are part - but only part - of what is needed. Within the next few days, the government will introduce legislation to establish a new institution to insure deposits in banks and trust and loan companies.

It has become painfully clear too in recent weeks that there are other financial institutions whose operations deserve greater scrutiny in the interests not only of the investing public but also of the general stability and reputation of Canada's financial structure. This is a field in which there is both provincial and federal responsibility. As I have already indicated to the provincial ministers, I am calling a meeting shortly to discuss what can and should be done.

All governments in this country, federal and provincial, have a common interest in maintaining the integrity of our financial institutions. We are not operating in water-tight compartments even though our respective jurisdictions may be limited. Deficiencies in one jurisdiction inevitably reflect unfavourably upon the rest. What heartens me is the evidence I see that this is well understood and that inter-provincial and federal-provincial cooperation will not only be possible but will be welcomed.

During 1967, the Federal Government will be reviewing its legislation affecting federal financial institutions with a view to developing a consistent and adequate framework for the protection of the investor and the public.

### Federal-Provincial Fiscal Relations

When I spoke to you a year ago, I said "of all the responsibilities of the Minister of Finance in this coming year, I believe the most important are those relating to the new financial arrangements required with the provincial governments . . . ."

That was another of the prophecies that was fulfilled. The federal-provincial conferences of 1966 marked a turning point in fiscal relations between the two levels of government. The discussions, I need hardly remind you, were tough, but in my view they were constructive.

Out of them emerged principles that I believe will stand this country in good stead in 1967 and in the years to come:

- 1) The principle that in our federal system there should be equalization of all provincial revenues to the national average, reducing the gap between the financial capacity of the "have" and the "have not" provinces.
- 2) The principle that provincial revenues should be cushioned against the effects of declining economic activity, thus enabling the provinces to follow fiscal policies appropriate to such times.
- 3) The principle that, given adequate and automatic equalization of revenues, each level of government should be responsible for raising the revenues it needs to meet its expenditures - that it should be responsible and accountable to its own taxpayers.

- 4) The principle that federal laws and fiscal arrangements should apply uniformly in all provinces.
- 5) The principle that each level of government should respect the jurisdiction of the other and that federal initiatives to achieve country-wide objectives, like medicare, should not lead to continuing federal influence over provincial decision-making.
- 6) The principle that Parliament should retain control of sufficient of the individual income and corporation taxes to enable it to discharge its national responsibilities for the general economic health of the country, and to enable it to provide leadership in the reform of the nation's tax structure.

#### Federal-Provincial Consultation

But although much was accomplished in 1966, much remains to be done. One of the most important and difficult problems is how to co-ordinate spending and taxing policies of the provincial and federal governments. The provinces and municipalities collectively now spend more than the federal government. They spend a great deal more than the federal government on public works. The federal Minister of Finance must therefore take into account what these other governments do when he is formulating fiscal policies for the purpose of maintaining a steady rate of economic expansion without inflation.

A few years ago the Minister of Finance and the Provincial Treasurers began holding meetings to exchange views on the fiscal and economic outlook. We held one just before Christmas. These meetings have proved to be useful but I know my provincial colleagues will agree with me that they can and must be improved as an instrument of policy co-ordination.

This may seem a relatively small matter but in fact every taxpayer and every citizen of Canada has an interest in the creation of adequate means for the co-ordination of federal and provincial financial policies. It is the hope and the intention of the representatives of all eleven governments that in 1967 these year-end consultations will be further developed both in scope and in advance preparations.

When I was preparing these remarks it occurred to me that during 1966, it had fallen to me to participate in many conferences between federal and provincial ministers on a variety of subjects and that although there had been difficulties from time to time and strong differences of opinion, on the whole the discussions had been inspired by a spirit of genuine co-operation and goodwill.

From this, I drew the conclusion that instead of complaining about the disadvantages of divided jurisdiction in a federal state, we might be better employed in trying to see how much can be accomplished by leadership and voluntary co-operation, and by building on those advantages which can be achieved by the decentralization which our constitution provides.

#### The Economic Situation

It is only three weeks, to the day, since I presented to the House of Commons what was generally referred to (at least before the event) as a mini-budget. The state of the economy has not, of course, changed perceptibly in that time, and it is certainly far too soon to attempt to distinguish direct effects from the measures which I proposed.

Nevertheless, I believe you would expect me in this traditional New Year speech of the Minister of Finance to say a few words about our economic health, and the way the economy, as I see it, is headed.

First then, let me assure you that our economic health is good; and, having administered the economic equivalent of those various sparkling remedies that are advertised as the answer to too much turkey, I am confident that our economy is going to be healthier still.

My metaphor is not, let me assure you, a flippany one; for I do indeed see the health of our economy in very much the same light as that of a human being; certainly not something to be fretted over daily, but not something to be neglected or abused either; needing a gentle corrective now and again if we have indulged too much, at other times needing a pick-me-up.

Government economic policy, in other words, must respond to situations as they develop, neither by daily tinkering nor, simply for tradition's sake, in massive, once-a-year doses. The year which has just ended provided a clear illustration of the need for this kind of responsiveness. At the time of my main budget in March, as you may recall, the indicators pointed to the continuation and possible strengthening of inflationary pressures. Apart from factors largely outside our control, such as food prices, the causes of these pressures, stemming mainly as they did from booming exports and a high rate of investment, were certainly no more objectionable than the enjoyment of a good Christmas dinner, and some might say a good deal less so. Nevertheless, the symptoms of indigestion were there just the same.

We took action, as you know, to calm the investment boom a little, and to moderate growing pressures on the consumption side by tax increases. When major commitments were subsequently entered into for additional federal expenditures relating to old age pensioners, it was apparent that these additional expenditures would have to be financed by equivalent revenues. The only uncertainty at the time was whether additional steps might not be needed to dampen the fires of inflation. You will recall that I was careful to keep my options open. We announced decisions last September affecting a number of programmes, including deferral of the student scholarship programme and postponement of medicare for a year. Each of these would have involved large additional expenditures by governments. While these programmes in themselves are desirable, and we will in time be able to undertake them, their commencement this year would have added to an already over-loaded economy. Hence we faced a hard choice, but decided to take what was regarded as an unpopular decision in order to promote stability and sustained economic growth.

When the time of reckoning finally did arrive, with the passing into law of the Guaranteed Incomes Supplement to old age pensions, I was glad to be able to say in the House, in presenting the supplementary budget, that the former excessive rate of demand expansion had moderated, and that a neutral budget, neither stimulating nor restraining the economy as a whole, was called for. Thus the two steps taken in that budget, doubling the maximum for the Old Age Security Tax and raising the general sales tax by one per cent, are calculated to do no more than meet the \$280 million called for by the Guaranteed Incomes Supplement.

It would not be inconsistent with this neutral, revenue-raising approach if, as 1967 develops, we decide that stimulation is needed in some parts of the economy. I am thinking especially of housing, where a reduction in activity and some spare capacity has been the result of excessive demands for capital in other sectors of the economy. A continued low level of housing activity is not desirable. Already the government has taken specific action to revive housing activity by way

of increases in the maximum lending rate on NHA mortgages, to induce investors to place more funds in this area, and the interest rate formula has been made more flexible which should enable lenders to make plans for future funding. The government has also, in its proposed revision to the Bank Act, made it possible for chartered banks to enlarge their lending in the housing fields. As a result of legislation approved before Christmas, government funds are available for the sale and refurbishing of used houses, and to increase in other ways the availability of funds for housing. All of these moves should help ease the housing situation.

We must recognize, of course, that the large direct lending programmes of Central Mortgage and Housing Corporation involve heavy demands upon the government's cash resources, over and above our budgetary requirements.

If there were any sign that economic weakness had become general and that specific actions of the type I have been talking about were unlikely to be adequate, then more general stimulating measures would be in order. In such circumstances I believe, as I said in my budget speech three weeks ago, that the appropriate mix of policies would be one which permitted an easing of the credit situation. Of course, our balance of payments situation is such that we require substantial imports of capital. Our interest rates in Canada must be somewhat higher than those in capital exporting countries if this capital inflow is to materialize. Fortunately there are signs that other countries are beginning to wind down a little from the extremely high pitch of interest rates which characterized most financial markets in 1966. As you know, in recent weeks there has been some reduction in money rates in Canada -- a most welcome development.

It should hardly be necessary for me to add that if signs of excess demand were to re-appear, I would not hesitate to bring in extra measures of restraint.

I think, and I fervently hope, that we in Canada have in fact arrived at a better balance of policies in time to avert, on this occasion, that damaging combination of continuing increases in prices and an excessive slackening of demand. I think we have just about got the underlying rate of growth in the economy back on to a sustainable path - in itself a high rate, I may say. We have had striking increases in real incomes and material well-being over the past five years. We must now ensure that the economy continues on this path, which is a fairly narrow one, neither lapsing into the waste of unemployment caused by an inadequate growth rate, nor on the other hand running off the rails because we are trying to do too much too quickly.

#### Higher Productivity

The achievement and maintenance of a stable growth pattern of this kind is a far from easy task. There is no simple formula for accomplishing it. A growth in our productivity is one of the most vital ingredients of a satisfactory growth. Rising productivity is essential to a continuing improvement in our national standard of living and to our ability to stay competitive with the rest of the world and especially with the United States with whom we trade so much.

We don't yet fully understand the mainspring of increasing productivity. Education obviously is important. So is research and technical development. Mobility of labour quite clearly contributes to productivity. In all of these areas government has a role to play, and is indeed playing it now. We have concentrated much of our energies and our financial resources in these areas in recent years. But in the last analysis the management of most of the country's

productive resources is in the hands of businessmen. Their efficiency, their enterprise, their leadership, are crucial if Canada is to produce more per man at work, and per dollar invested.

Our productivity is also increased by ensuring that those industries grow most whose productivity is highest, and that those which produce less per Canadian employed should be allowed to shrink in competition with others for labour. The huge transfer of labour out of relatively unproductive types of agriculture over the past quarter-century has greatly increased Canada's productivity and income per person. Those who have remained in agriculture have become much more productive, too, with the use of much more machinery, larger farms and better methods. The same kind of transfers are needed in other industries. One of the most welcome aspects of the programme just begun for the gradual phasing out of the high-cost and highly subsidized coal mining industry of Cape Breton is that it will enable the workers of that area to make a much better contribution to the productivity of Canada, and earn more in real terms.

### Trade Policy

We have the same objective -- the better use of our labour and capital -- in our tariff policy. As you all know, we are engaged in a multilateral tariff negotiation at Geneva which should prove to be the most important since 1947, if not the most important since the war. These negotiations, which arose out of the enterprise of President Kennedy back in 1962, must be completed well in advance of next June 30th, when the powers given by Congress under the Trade Expansion Act will expire.

If these negotiations are as successful as we hope they will be, many Canadian industries will find important new opportunities to increase their exports, or in some cases to start exporting for the first time. This should enable them to operate on a larger and more efficient scale. For our part, we in Canada in exchange will have to make numerous reductions in our own Customs Tariff. These should also help to make our economy more efficient. To the extent that we can, we are trying to be selective in our own tariff cuts, so that they contribute to a sensible industrial development policy in Canada. One of our objectives in these negotiations will be to strengthen and develop those areas of industrial production in which Canada appears to have real working advantages.

The completion and the implementation of the Kennedy Round of tariff negotiations is therefore one of the big tasks which face us this year. But our interest in improving our trade arrangements with other countries will certainly not stop in 1967. In a number of speeches in recent months I have been trying to stimulate consideration of the objectives in commercial policy which Canada should pursue after the Kennedy Round. This may call for even more boldness and imagination than the Kennedy Round itself. I have suggested that we and the other industrial countries should begin to look at complete sectors of industry where tariffs can be removed completely or very substantially lowered. Our immediate task, however, is to make the Kennedy Round a success, and I can assure you that the Canadian government and its negotiators will play their full part in this endeavour.

### Conclusion

This year we Canadians are looking ahead with a consciousness of what we have achieved in the exciting century we have worked together. It would be puerile to pretend we do not have problems and difficulties as well as opportunities and wealth. In the economic field we have many problems ahead, if we are to achieve a decent standard of living for all Canadians -- but we can certainly attain this goal reasonably early in our second century if we work hard and well.

In the political field, we Canadians have more difficult and delicate problems to solve if we are to be governed efficiently and united in our loyalties and aspirations. We have a constitution that has served us reasonably well, and many good institutions, public and private. These are threatened by one major problem to which we have not devoted enough attention. We Canadians who speak English have not done our part to operate our national institutions - ranging from the government of Canada through our big business firms to our various voluntary organizations, large and small - in such a way as to enable our French speaking compatriots to feel that these are also their institutions, in which they can participate as fully and effectively as we can. Until they can feel that these institutions are as much theirs as ours, they will be tempted to seek other remedies, remedies which will not further our unity nor benefit either side as much as genuine cooperation can. We have made some progress now in improving the bilingual character of our institutions so that French Canadians will feel more a part of all Canada. Let us this year resolve to get on much faster in this same direction.

Meanwhile let us mind our economic housekeeping, but not fret about it.