



TEXT OF AN ADDRESS

BY

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OF THE

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I am grateful to you, Mr. President, for inviting me to be with you today. I remember, with pleasure, the last occasion on which I occupied this rostrum - just over a year ago. I was then a member of the Toronto business community - an experience that I found most enjoyable.

However, my circumstances are now somewhat different. I have once again become a public servant, and, even though my present experience in Government has been of short duration, I should like to talk briefly on the subject of business and Government and give you a few of my current impressions. I will then make a few remarks on the condition of our economy as I see it, including a brief reference to the Kennedy Round of tariff negotiations, which I regard as being of outstanding significance to Canada.

I believe private enterprise is the economic system best able to provide the standard of living sought by Canadians.

The revenues needed in increasing degree to support our economy, to provide basic Government services, to fight poverty and inequities, and to provide a fair level of social welfare, can best come from efficient private enterprise, operated according to sound business principles. It is because I hold these principles that I accepted an invitation to join the Government in the hope that I might, among other things, usefully reflect a businessman's approach and philosophy into the affairs and decision-making processes of the Federal Government.

Government is the business of the people, and it is very big business, indeed. But, there are fundamental differences between private enterprise, which finds its motivation in the incentive of profits and Government, which is dedicated to the service of the people. The Government, however, can discharge its responsibilities to the best advantage if, in the conduct of its affairs, it strives to obtain the best value for all of our citizens from the money it has to spend.

This demands efficiency, careful evaluation of the programs on which it embarks, and diligent control over its expenditures.

While I believe the experience of a business executive can be useful in Government, I am more convinced than ever that it is easier for a politician to become a businessman than it is for a businessman to become a politician. Judging from a recent article in Fortune magazine, I believe Secretary Connor of the United States shares this conviction. I have long held that view, and, if I had not had previous experience in the Government, I would, I am sure, find this transition very difficult indeed.

One who has had experience as the chief executive officer of a private company would find the decision-making processes in Government to be very different. I subscribe, fully, to the principle of Cabinet solidarity - which means that, once decisions are taken, the whole Cabinet is bound to support them.

There are 26 Ministers in the Federal Government, representing diverse interests and geographic areas. They must endeavour to reconcile into national policies the many different and often complex aspects of Canadian life. Usually, common ground can be found and while the decision taken might not satisfy all, it is usually supportable.

There will undoubtedly be decisions taken by the Government, and supported by me, which will cause some concern to many of my friends. The question inevitably arises as to whether one can serve best by trying to work from within the Government, or whether he can be more effective and constructive if he has the freedom to express his private views. Every Minister undoubtedly wrestles with this conflict from time to time.

The same, of course, applies in private business, but there the balance sheet is usually the final measurement of whether the decision is right or wrong.

There is no such yardstick in the administration of public affairs, with the result that Government decisions become much more a matter of choosing the best course open in the circumstances.

Another facet of Government administration that would strike a businessman is the amount of committee work in the decision-making processes. With such a large number of departments, there are bound to be many matters that are of common interest to two or more departments, so that inter-departmental consideration is often a necessity.

I am not, at this time, offering an opinion on the merits of the structure of Government organization and administration. That can be done and indeed, has been done, by people more competent in this field than I.

I am simply giving a few examples of practices that would seem surprising to a business executive suddenly translated into the Federal Cabinet and using them to illustrate why Government is the art of 'finding common ground' and is not, nor can it be expected to be, run with the crispness and decisiveness of a business which has its eye primarily on the balance sheet.

These are days of increasing complexity in corporate structures, necessitated by advancing technology, increasingly sophisticated and diversified products and production techniques.

Management must and does, spend much time, money and effort in adjusting to these changing circumstances. This is a process of constant study and change. Companies run by management that does not advance its techniques with the times will lose ground.

Parliament has responsibility for the conduct of the country's public business. The scope and complexity of our public affairs and the consequent demands on Parliament are increasing enormously, but the Parliamentary machinery for enacting the legislation and handling the business of the country has not changed enough to enable it to deal with its program expeditiously - as evidenced by the lack of progress made by Parliament in this Session to date.

The late John Bryden prepared remarks for delivery to the annual meeting of the North American Life Assurance Company. He was prevented from delivering them because of his untimely death.

He stated, "To achieve excellence we will be forced to take a hard look at our Parliamentary structure to see if it is conditioned for the jet age or merely adequate for the horse-and-buggy days. We will have to consider how the decision-making process can be sharpened up." With those remarks I concur.

Change of Parliamentary rules is resisted by some on grounds that Parliamentary traditions must be maintained. We all cherish valued traditions and don't wish to have them disregarded, but it is wrong to make tradition, as such, an excuse for preventing progress.

Each of us has our own concepts of what the appropriate procedures should be to achieve the best possible results in almost any situation. I don't know how many of us would agree with the set of rules drawn up by Mr. Harry Chapman, and which I saw recently in a copy of THINK magazine, but I do know some people who seem to apply them. He says:

"Having served on various committees,
I have drawn up a list of rules:
Never arrive on time; this stamps you
as a beginner. Don't say anything
until the meeting is half over; this
stamps you as being wise. Be as vague
as possible; this avoids irritating
the others. When in doubt, suggest that
a subcommittee be appointed. Be the
first to move for adjournment; this
will make you popular; it's what everyone
is waiting for."

.....

I turn now, to our economy. All the indices
point to a year of healthy, economic growth.

The high level of economic activity, stimulated by an extraordinarily large capital programme, and coupled with shortages of labour and the difficulty of finding sufficient funds to finance all planned undertakings, will impose inflationary pressures.

This will be one of our most pressing problems as the year advances, particularly having regard to the fact that we experienced an adverse external balance on current transactions in 1965 in excess of \$1 billion, and that this figure is apt to be higher in 1966. It will be recalled that the corresponding figure in 1964 was less than one-half billion dollars (\$433 million).

Although our payments on invisible account, including monies required to pay dividends abroad, and to service our foreign debt, were only slightly higher than in 1964, we had a sharp decrease in our surplus on trading account.

In part, this was due to lower wheat shipments which will increase in 1966. It is this drop in our balance of trade that must concern us seriously.

To hold our position in world trade and take advantage of opportunities to improve it, we must remain competitive on the basis of cost, delivery and service.

Taxes, of course, are an important element of costs; but it is only through the imposition of taxes that the Government can obtain the revenues it needs to carry out the programmes and provide the services required by the citizens. It is, therefore, incumbent upon all of us to use restraint in the demands made upon the Government if as a nation we are really serious about being competitive with other countries in seeking out and developing new markets for our goods.

Moreover, having in mind the lure of the dynamic economic climate to the south of us, and the tendency for our citizens to gravitate to the broad opportunities it offers, we must strive to maintain in Canada an environment that is favourable for capital investment and which will induce Canadians to remain in Canada and encourage people from other countries to come to our shores.

If we are to avoid too great a disparity between our taxes and those of other countries with whom we compete for manpower, capital and markets, the Government must be selective in its spending programme and resolute in resisting pressures to spend beyond its means. Each expenditure should be judged in terms of its return, as an investment, in material and human values.

The Government would, of course, like to expand welfare payments to all who need them. Every Government would like to do this, and this Government is no exception.

It wasn't easy for Members on our side of the House to vote against the Resolution introduced by the Opposition to increase Old Age Pensions to \$100 a month. We would like to have done so. But it is estimated that this would have cost over an additional \$800 million a year and having in mind that, even under conditions of unprecedented buoyancy, it is difficult to find enough revenues to cover our current rate of spending, this additional large expenditure would have imposed stresses on our economy which it would have been hard-pressed to sustain. Under these circumstances, increased social payments would bring less in additional benefits than would be anticipated.

In terms of human values, we all want to see need met wherever it is found, but it seems to me that, if we are seeking orders of priority, it is the youth of the country who will have to carry the burdens of tomorrow that constitute one of our best investments.

I, personally, believe, to the extent that the country can afford it, we must invest more in the fitness and the education of the oncoming generations. This is why, at this stage, the Government set aside an additional \$60 million this year for education, as announced in the Speech from the Throne.

To revert, however, to our balance of payments, we have, so far, been able to offset our deficit on current account by capital flowing into Canada from abroad. That, of course, raises the question as to how long it is wise for a country, or a company, to continue borrowing large amounts of money. Many dynamic and expansionist companies are in the same position in this regard as is Canada itself. They approach the problem on the basis that they can continue to accumulate debt as long as they have the capacity to pay the interest and otherwise service their obligations. The same, of course, holds for the country.

But, in due course, the danger point is reached, and it is a wise company, and a wise country, that will avoid this extreme. The real crisis occurs if, suddenly, for some reason or other, borrowing sources are cut off. The equalization tax imposed by the U.S. gave us cause for concern a few years ago. That problem fortunately was solved in keeping with the mutual understanding and goodwill between the U.S. and Canada. New issues of Canadian securities were exempted from the application of the United States Interest Equalization Tax and Canadian borrowers continue to have unrestricted access to the United States new issues market.

U.S. Guidelines

Under the United States balance of payments programme large American companies have been asked to maximize their individual contributions to their national balance of payments position. This is to be achieved in a variety of ways including such measures as export expansion, repatriation of income from abroad, repatriation of short-term financial assets, and the maximum use of the funds obtained abroad for investment purposes.

A quantitative limit has been proposed for each company with respect to its direct investment abroad, defined to include retained earnings of foreign subsidiaries in addition to capital advances made by the parent company. Canada is now included within this direct investment guideline, although the limitation applies to all developed countries as a group with no separate targets for individual countries.

There were some misunderstandings in interpretation of the intentions of the guidelines and misapprehensions about their impact on the Canadian economy. At the recent meeting of the Joint Canada-U.S.A. Ministerial Committee on Trade and Economic Affairs, Canadian Ministers were assured by the United States authorities that the United States Government was not requesting United States corporations to induce their Canadian subsidiaries to act in any ways that differed from their normal business practices as regards the repatriation of earnings, purchasing and sales policies, or their other financial and commercial activities.

The United States members of the Committee re-emphasized the view that United States subsidiaries abroad should behave as good corporate citizens of the country where they are located.

In light of these developments it seems appropriate at this time to consider carefully what constitutes good corporate behaviour in the case of foreign-affiliated companies. In addition special attention and encouragement should be given to help these companies to adhere to the guiding principles of good corporate citizenship.

The importance of foreign-affiliated companies to Canada's trading position is illustrated by the fact that Canadian subsidiaries of United States companies account for close to one-half of our total merchandise imports from the United States.

All-out endeavour on the part of this group of companies, and all other groups in the trading community, will be necessary if we are to hold our external payments gap to manageable proportions.

KENNEDY ROUND

Following interesting and useful talks I had with Ministers of the French Government in Paris last month, I went on to Geneva to get a first-hand report from our Tariff Delegation participating in the Kennedy Round of trade negotiations. I would like to give you some of my impressions.

As you may recall, these trade and tariff negotiations were set up in response to President Kennedy's initiative. In this initiative, President Kennedy obtained from Congress more tariff negotiating authority under the Trade Expansion Act than at any other time in history. The U.S. negotiators in Geneva have authority to cut the U.S. tariff in half over pretty well the whole range of items imported into the United States. In addition, there is authority to remove the U.S. tariff altogether on products where the present rate is 5% or less.

This is the background to the Kennedy Round. The approach to the negotiations is to find the basis of agreement which will permit the United States to use its full authority under the Act. There are some 40 countries involved in the bargaining, including the EEC, Japan and the United Kingdom. The objective is to get trade barriers down generally and to maintain the momentum of expanding international trade.

How are these negotiations getting on?

The negotiations have been proceeding in Geneva for over a year. They are trying to come to grips with difficult and complex problems. The negotiating down of industrial tariffs by as much as one-half is a major task in itself. Efforts are also being made to deal with a complex of problems facing agricultural exports, including wheat and grains. This comes at a time when the European Common Market has major internal problems of its own.

However, we should not be deterred by the difficulties. The benefits that could derive from a successful Kennedy Round are well worth the effort. The prospects are beginning to brighten.

As you know, the negotiations were deadlocked for some time because of internal problems within the European Common Market. At the recent Luxembourg meeting the six countries agreed to move forward in working out their internal problems as well as in their participation in the Kennedy Round. The Ministers of the six countries are meeting to deal with these issues. If, as we hope, all goes well, we can look forward to resumption of active negotiations in the near future.

What could a successful Kennedy Round mean for Canada? We are all conscious of what needs to be done to make the Canadian economy more competitive and productive. The processing of raw materials must be up-graded.

Research and technology must be improved. Industry must become more specialized and geared to larger markets and longer runs. We must achieve greater productivity. The Kennedy Round would contribute to all these objectives.

All sectors of the economy could benefit, including our important trade in wheat. For our key resource industries, successful negotiations would have a direct impact on the location, investment and expansion of facilities on a world basis. The most striking outcome would be a general and substantial lowering of tariff levels on semi-fabricated and manufactured goods in the United States and other markets. Our exports of manufactured goods have already shown a remarkable growth in recent years. The further widening of export opportunities that could result from the Kennedy Round - both for our present trade and for new products - would provide the basis for the kind of re-adaptation our industry needs to make.

In my talks in Paris, as well as in my conversations at Geneva with Ambassadors from a number of countries, I stressed the importance Canada attaches to the successful outcome of these negotiations and urged that all these countries negotiate purposefully to that end.

At the recent Canada-U.S. Ministerial meeting on Trade and Economic Affairs in Washington, we agreed that both countries would give "highest priority" to completion of the Kennedy Round negotiations and would "continue to work closely together in the interests of a successful negotiation."

Trade is vital to our national prosperity. We must give it the high priority it deserves in our business and national policy decisions. As Minister of Trade and Commerce I am determined to do what is in my power to ensure that our export efforts and commercial policy activities play their full part towards the achievement of our national objectives.

CONCLUSION

In concluding my remarks when I last had the privilege of meeting with you on February 1st 1965, I indulged in a bit of wishful thinking and expressed the hope that Canadians generally, and Parliament in particular, would turn aside from destructive bickering so that our energies might be devoted to the welfare of our nation. If you will 'seasonally adjust' a few words in recognition of the passage of a year, I believe the circumstances of the moment warrant the use of the same conclusion:

"In the field of public affairs, at the Federal level many of the things the Government has done have been imaginative and constructive, but unfortunately they have been masked to some extent by the conduct of Parliament itself where much of the destructive bickering has been related to relatively unimportant matters.

"I have a feeling that the next Session will be better, and that Parliament will again play the high role Canadians have a right to expect of it.

"I say this because I believe there is a new sense of Canadianism and that people everywhere are now more concerned about the roles we as individuals can play in making democracy work so as to develop here in Canada from our bountiful resources greater benefits for an expanding population."