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Notes for Remarks by
The Honourable Mitchell Sharp
Minister of Finance

To the Canadian Club of Toronto, Monday, January 3, 1966

"AGENDA FOR '66"

Mr. Chairman, I appreciate your invitation to continue the practice of the former Minister of Finance from Eglinton in addressing your club at the first opportunity in the New Year. I do so as a tyro who has been in this distinguished office, in his own right, for only two weeks, and is acutely aware of its responsibilities and hazards.

I begin, however, with two advantages not shared by any of my predecessors.

First I have the good fortune to take over from the Honourable Walter Gordon. The people of this country and I as his successor in office have reason to be grateful for his skillful administration of the national finances - which he left in such good order - and for his vigorous defence of the Canadian interest.

My second advantage is that I served in the Department of Finance for some years, under those illustrious Ministers, the Right Honourable James Ilesley and the Honourable Douglas Abbott. My ambition is to be conscientious as Mr. Ilesley and as cheerful about it as Mr. Abbott.

Whether I achieve this laudable ambition of being both conscientious and cheerful, I do have a concept of the role of the Minister of Finance and I thought that on the occasion of this first speech in my new portfolio, I might outline my concept and then go on to apply it to some of the problems facing us in the New Year.

It used to be felt that the duty of the Minister of Finance was simply to find the money the government must necessarily spend to discharge the duties which the constitution and the will of Parliament placed upon it. The classical test applied to his management was to balance the budget. Now we look further and deeper. Our task is to use the powers of Parliament and the government -- through budgeting expenditures and revenues and by legislation and its administration -- to guide the economy along in the direction and at the speed that seems best calculated to achieve our economic goals. Those goals have been effectively summarized by the Economic Council of Canada at the beginning of its first annual review, as "full employment - a high rate of economic growth - reasonable stability of prices - a viable balance of payments - and an equitable distribution of rising incomes".

But the role of government and the Minister of Finance is not simply one of economic management. There are broader social objectives with which our economic goals must be reconciled and within which they must be achieved: to attain

for all Canadians greater opportunities and greater equality of opportunity; to help the poor to overcome the disadvantages that tend so often to doom them and their children to continued poverty; to sustain those who are old or sick or handicapped at standards that are in keeping with what Canadians regard as reasonable. While responsibility for pursuing these social objectives lies mainly with the provinces, the government of Canada has a share of it. I personally fully support these objectives.

Nor are Canada's policies and moral obligations confined within our borders. Canada has for the past generation, with a widespread support from its citizens, taken an active role in international affairs. In carrying forward this role we have used not only the skill of our diplomats but also some of our material resources to deal with the problems of substance in the international world. The largest requirement for resources has of course been in the field of defence. We must maintain a defence program if we are to carry a fair share of the burden that falls upon the leading western nations and be taken seriously by our allies in our international role. Increasingly, however, we are also taking an active role in extending aid to the less developed countries. We do this not only for humanitarian reasons but also because we believe that it will help in bringing about the kind of world in which our children and grandchildren can live in peace and prosperity. The government plans a growing program in this field of international aid, despite the increasing claim that this must put upon our resources in competition with our own requirements. I am confident that this policy will have the support of a vast majority of the Canadian people.

The Minister of Finance has another primary responsibility.

That is to form judgements as to how much of the nation's resources can be devoted to the various duties and purposes of the government of Canada and what priorities should be given to them, taking into account all the interests and wishes of the Canadian people. He must form a view as to how these programs of expenditures on the part of the government of Canada can be fitted into the requirements of the private sector of the economy, to meet the demands of consumers and of business. He must take into account what the provinces and municipalities are doing and what they require. The Minister of Finance, along with the Prime Minister and others, must find some means to reconcile these various demands upon the resources of Canada and to do so by action that will ensure a productive, prosperous and growing economy in which proper priorities have been accorded to various economic and social objectives.

That is my concept of the role of the modern Minister of Finance. Now let me turn now to consider briefly some of the major problems to which it must be applied in 1966.

We can reasonably expect another year of high employment, production and income in 1966. The expansion in real terms in 1966 as compared to 1965 cannot be as great as it was in the preceding two years because we are now closer to the physical limits on our capacity. Given a labour force growing at a rate of roughly 3%, and a greater increase in productivity than has occurred recently, it should I think be possible for Canada to produce perhaps 5 per cent more in real goods and services. We cannot reasonably of course count on another bumper crop.

Our major problem this year seems likely to be to restrain the economy from trying to expand more rapidly than is physically possible. Too rapid an expansion in expenditures,

private and public, would contribute to inflationary conditions and lead in due course to a frustrating recession.

The expansion will be restrained somewhat by the payment of contributions to the Canada and Quebec pension plans. Yet, even after taking this into account, it looks as if total expenditures will be at least high enough to sustain a good rate of growth in our production, and perhaps so high as to put undesirable pressure upon our capacity to produce, and on prices.

That being so, I believe it is desirable that the federal government should continue the policy of postponing such expenditures as we can, particularly on public construction projects and programs, until after 1966, except in certain areas of higher than average unemployment. In order to harmonize federal and provincial policies in this field, I have expressed this view to the provincial Ministers of Finance and Treasurers and discussed the situation with them.

I take this opportunity too of urging restraint in price and wage increases in 1966. As the Economic Council has warned the country, "failure to maintain reasonable price and cost stability will frustrate the attainment of other basic economic objectives".

The Budget Situation

Our budget position in this current fiscal year has been better than the Honourable Walter Gordon was able to anticipate at the time of his budget speech last April. The strong economic expansion has increased our revenues a couple of hundred million above the budget forecast, which will probably leave a deficit in the traditional sense of less than a hundred million dollars. In terms of its impact on the economy as shown in the national economic accounts we would expect to show a surplus of perhaps about a third of a billion.

You will not expect me to be at all specific about the next fiscal year as the budgetary position will depend in large measure upon decisions that have not as yet been taken. However, there are certain factors that are already clear. Federal expenditures will be up substantially, in part because of the built-in growth in some items and in part reflecting new measures already announced. We are being pressed to undertake additional financial support for the universities, the importance of which is widely recognized. On the other hand, our present tax law includes a provision to divert an additional part of the personal income tax to provincial governments, starting today, and it also provides for the tax cut of last July to be in effect for a full year. We will also lose some revenue because the contributions to the Canada and Quebec Pension Plans will be deductible from taxable income.

We had hoped, as the Honourable Walter Gordon stated, that the report of the Royal Commission on Taxation would have been published by this time. I have recently discussed the situation with Mr. Carter, the Chairman of the Commission, and it now appears that the report will not be finished before March. It would not be appropriate, I believe, to put forward substantial proposals based upon the report until there have been several months for all those interested to study it and make known to the government their views upon it. Consequently the budget this spring will not reflect the proposals of the Commission.

In view of the delay in the completion of the report, arrangements have been made for officers of the Department of Finance to see, on a confidential basis, not only the

research studies prepared for the Commission but also more recently the draft chapters as they were approved for translation. This is enabling the department, with the aid of its expert full-time consultants, to do technical and analytical work necessary to prepare for implementation of whatever decisions the government may make on the report after it has been published and properly considered and discussed.

We should all recognize what a monumental task it is to review in detail and revise the tax system of Canada. With the weight of taxation in this country it is vital that our tax system should be as fair and as efficient as we can make it. It is not so now. The Royal Commission on Taxation was established in September 1962 when the late George Nowlan was Minister of Finance. He may well have left us in this Commission and its work a legacy of analysis, advice, and controversy that will far more than make up for the fact that he was never given an opportunity to introduce a budget.

Banking Legislation

Quite apart from the budget, there will be a substantial amount of financial legislation this year. The centrepiece, of course, will be the Banking Legislation, which includes both the revision of the Bank Act and the amendments to the Bank of Canada Act, as well as other statutes. I am reviewing now, in the light of events and developments of the past year, what was put before the House last spring. I do not propose to make any comment on the substance of this legislation before presenting it to the House, except to say that there will be some changes. My own opinion is that our legislation should go as far as is practicable to strengthen public confidence in our financial institutions and to promote competition among them for the benefit of the public at large.

International Matters

As Minister of Trade and Commerce I was primarily concerned with our export problems and policies. Now, as Minister of Finance, I must turn my attention more directly to problems relating to tariffs and imports. This will be the crucial year in the negotiations in GATT of the Kennedy Round of tariff reductions and reductions in other barriers to trade. We shall be playing our full part. We shall also have to continue to deal with the important problems of adjustment to what have come to be called "low cost imports", and the avoidance of market disruption. My general views on trade policy are well known and I would not expect to change them as a result of a change in portfolio. I have no doubt, however, that I will have a different set of problems brought vividly to my attention.

As to our balance of payments, I need hardly remind you that Canada has had large deficits on its current account in its balance of international payments in most years over the past decade, relieved only in part by the large sales of grain to Russia and China since 1963. We have been able to improve our situation with the help of the change in our exchange rate which took place in 1961 and 1962, and -- given the relative stability in our costs and prices -- with the increasing productivity and competitiveness of Canadian industry. We have enjoyed favourable export markets and Canadians have made vigorous efforts to cultivate them. We continue however to have a large balance of payments deficit on current account - something of the order of one billion dollars in 1965 and it will probably be slightly more rather than slightly less, during the year ahead. This deficit requires that we secure a correspondingly large

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the basis of sound principles, we can develop a more equitable arrangement that will take into account a wider concept of fiscal capacity.

Our third problem is to work out a policy and understanding concerning what we now call shared-cost programs - basically the payment of federal grants to provincial governments for carrying out specific programs. A great variety of such programs have been developed over the past 30-odd years. Individually each one has no doubt been useful and has been a means by which the government and Parliament of Canada have been able to encourage and assist the provinces to develop important programs. Though these programs have usually related to subjects within provincial jurisdiction, they have been directed to purposes that were national in their importance.

Taken all together, however, these shared-cost programs now cover a significant proportion of the activities and expenditures of provincial governments. So important have they become in total that some provincial governments are now concerned over the degree to which their activities are influenced and guided by federal action and by conditions attached by Parliament or the federal government to the use of monies paid over to them. Some provinces feel this concern more than others; the Province of Quebec in particular has felt that the proliferation of such programs has led to an intrusion by the government of Canada into responsibilities that are rightfully those of the provinces. It was this position which led to the contracting out legislation of last year. It is this position of the government of Quebec which Premier Lesage has recently reiterated.

We have endeavoured in the proposals made in respect of Medicare to make it possible to achieve a nation-wide objective without introducing a shared-cost program, avoiding the administrative and financial conditions which have been the cause of complaints in recent years. I hope that this proposal will receive general support. Meanwhile we must all give thought to what policies should be followed in the future in dealing with the various programs of this kind.

I am one of those who believes that the government of Canada has a responsibility to provide national leadership not only by exercising its own powers but also by encouraging provincial governments to develop programs of national importance. I believe this to be consistent with the spirit of the constitution and necessary if Canadians are to achieve their national purposes. Such leadership, however, can only be effective if it is combined with respect for provincial responsibilities and judgment on matters within their jurisdiction. We must ensure that the instruments are available by which the federal government can promote national objectives without pre-empting provincial responsibilities.

I am sure that we can develop such instruments. We are doing some new thinking in Ottawa on this subject and we hope that others will be doing so in the provincial capitals and in the country at large.

These, Mr. Chairman, are some of the things on the mind of the Minister of Finance as the New Year begins. There are problems ahead but they are manageable and when we look at the world around us we have reason to thank the Almighty that we dwell in Canada.

A Happy New Year to the members of the Canadian Club of Toronto.