

" CANADA AT THE CROSSROADS "

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THE STEEL COMPANY OF CANADA, LIMITED

TO

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Mr. Chairman, Ladies and Gentlemen:

I appreciate the opportunity you have provided me with this afternoon. The Canadian Club enjoys the reputation of being one of this Country's best-known and most respected public forums, and this is amply borne out by the calibre of the speakers you consistently succeed in attracting to your meetings. I shall, therefore, do my utmost to try and maintain the high standard set by my distinguished predecessors at this podium.

Despite my association with Canada's Steel Industry, I propose to refer to this in only the most peripheral way during the course of these remarks. You will recognize, however, that whatever views I hold are, at least to some extent, coloured by my associations, my occupation, our customers, our suppliers, as well as our Unions and, to an ever-growing extent, our involvement with all levels of Government from the Municipal through to the Federal.

There was a time not too long ago when speeches to organizations such as the Canadian Club invariably embodied a spirit of heady optimism usually epitomized by the theme " the Twentieth Century belongs to Canada ".

I think we would all agree that the current environment dictates a somewhat more cautious appraisal of the future prospects of our Country.

I am reminded, however, of the author of this statement, Sir Wilfred Laurier, who supported his optimism about Canada with the rather interesting suggestion that our future was assured based on our three legacies, namely:

- (1) our heritage of the British system of Government learned from our ancestors;
- (2) our heritage of the French culture so much a part of our beginning; and
- (3) our opportunity to grasp the efficiencies of our American neighbour.

Surely these three would spell success. One wonders today what his reaction would be were he to gaze at his Native Land which has instead embraced the American culture; is rapidly mastering the depths of British efficiency; and would appear to be headed toward the French system of Government -- hardly the best of all Worlds.

Perhaps it is a time to engage in some sober thought, not as an exercise in itself, but rather as a first step in enabling us to chart a course for our Nation that is appropriate and relevant to the era in which we find ourselves.

The heady environment of the "Roaring Sixties" has been replaced, not by the "Soaring Seventies" as was so widely predicted, but rather by the "Sobering Seventies". A whole series of problems -- inflation, energy shortages, declining productivity, balance of payments' difficulties, labour unrest, and shortage of investment capital -- many of which have been present for some time but were masked by the society-wide euphoria of the past decade, have now been exposed to the harsh realities of today.

There is little question that the most alarming problem facing our Nation today is that of INFLATION which continues to affect every segment of our society, namely: the wage and salary earner striving to bring up a family;

the manufacturer seeking to modernize or expand his facilities; and, above all, the elderly and others living on fixed incomes. I use the term "alarming" simply because history has demonstrated time and time again the ability of inflation to tear apart the fabric of the most powerful and stable of societies. It should, I am sure, be a matter of some concern that Canada's record in fighting this problem, while superior to that of the United Kingdom and Italy, is not as impressive as that of other Western Nations, most notably the United States, West Germany and Switzerland.

It must be recognized, however, as one views this record that in fact, during the past 12 months of putting the inequities which have occurred aside, some progress in fighting inflation has been made and there is a genuine desire to remove controls at the earliest opportunity. The Anti-Inflation Board has, in fact, had some physiological success, but its removal must come with the minimum of delay.

Added to this very serious problem is the DEFICIT in our International BALANCE OF PAYMENTS. In 1975, Canada's earnings from the export of goods and services lagged behind the cost of imports to the tune of a staggering \$ 5 billion, which of course had to be financed by huge foreign borrowings.

The prospect of helping to correct this situation by increasing our export of goods and services exposes us to additional problems as economic recessions in the Countries, which buy Canadian products, and relative strength of our currency work against these opportunities. Our export figures show this decline as Japan, particularly, aggressively seeks export markets which have now doubled their share over the past 12 years, and our deficit grows in services, interest, dividends, management fees, and royalties.

This overall erosion of our export competitiveness is a serious matter simply because our economy depends so heavily upon the strength and vitality of its external trade. Canada's related performance, vis-a-vis the United States, becomes all the more crucial when it is considered that the United States accounts for approximately 70% of our external market.

Our competitive position has been affected by strikes. As you are aware, we are second only to Italy in having the worst "man days' lost" record in the World. These strikes have been spawned in the public sector where, with some obvious exceptions, the public sector has been not only matching but exceeding the benefits granted under the bottom line influence of the private sector. The political realities of reversing this trend are apparent. However, we have gone too far in allowing essential services to be denied by strikes and perhaps not far enough in providing trained management in the public sector so that, at least to some extent, friction which fuels the apparent inequities is dealt with by management before it reaches the stage of open hostility.

All of this has to be viewed in the context of the estimated \$ 735 billion in capital investment which Canada will require between now and 1985 if it is to reach its full economic growth potential. Unfortunately, the current Canadian political, economic, and social milieu (with its incidence of high inflation, steeply-progressive taxation, and a lack of acceptance of the "profit motive") provide a somber background against which new investment must be made.

The obtaining of external capital might not constitute as easy a task for Canada in the future as it has in the past. It is no secret that International money managers in the World's financial centres -- (New York, London, Zurich and Tokyo and, taking into account the realities of the New World's economic environment, doubtlessly in Riyadh, Kuwait, and Tehran as well) -- are regarding with concern the current trends within our society.

Our persistently high level of inflation; balance of payments' deficit;

increasing Government involvement in the marketplace; and lagging

productivity are all combining to make International investors regard

Canada with less enthusiasm than we have previously had reason to expect.

In this context, the Steel Industry's customers continue to compare investment

opportunities in Canada against those available in the United States, and we

continue to see those investments moving South of the border as the uncertainty

grows.

Equally disturbing is the FLIGHT OF CAPITAL that is currently taking place

from Canada to more attractive climates elsewhere. The amount of Canadian

money being invested abroad has climbed from \$5 million in 1966 to \$ 630 million

in 1975, and the detrimental effect which this will have on our balance of payments'

situation, National productivity, and domestic jobs' creation is apparent. This

may appear to be unpatriotic.

This trend might in some circles be considered unpatriotic, but I would point out that this movement merely reflects the historic and natural tendency of capital to flow to wherever it will obtain the most advantageous return and this principle applies irrespective of whether it is an institution or an individual that is involved.

Added to these two is our growing ENERGY SHORTAGE, particularly the growing imbalance between domestic supply and consumption of oil. Canada's crude oil reserves have been declining for six years and, in 1975, we became a net importer of this vital commodity. In fact, it has been suggested that, by 1985, Canada will be importing about 50% of its requirements and this, of course, has serious implications, both for our International balance of payments and the rate at which our economic base can be expanded.

In the face of these three difficulties, I don't believe that any thinking Canadian could fail to have been other than deeply perturbed about the irresponsible act of lawlessness that took place in our Country on October 14th, 1976.

For the first time, the strike weapon was propelled beyond its legitimate role as an option in the collective bargaining process, and was utilized as a means of attempting to bring about certain changes in Government legislation favoured by our Nation's Union leadership. The precedent set on October 14th goes far beyond merely damaging Canada's external image as a stable and law-abiding society -- it strikes at the very heart of the democratic process.

There are many Canadians in all walks of life who have serious reservations about the Federal Government's Prices' and Incomes' Legislation and certainly the average shareholder must for he, of all the sectors in the economy, continues to bear the brunt of the inflationary spiral. Market conditions, recognizing his predicament, continue to reflect a deteriorating value on his original holding, and the Anti-Inflation Board's controls prohibit his return from reflecting the growing inflationary pressure. This dilemma continues to work against the formation of new capital at a time when debt ratios block further expansion plans in our economy.

There is, however, a proper and legal way of registering disapproval with Government policy and bringing about desired change ; it is called the ballot box. We have seen two examples of this over the past three weeks. (1) The election of last Monday emphasized the desire for change, if not for secession, on the part of our neighbours to the East. (2) The desire on the part of our neighbours to the South, to rid themselves of the image of the last of a questionable administration, shows the effect of public sentiment.

It would not be too difficult, given our many problems, to allow ourselves to lapse into a mood of acute despondency with respect to the future prospects of our Nation. To my mind, however, such despondency would be every bit as unwarranted and unjustified as the aura of smug complacency that has characterized our society up until now. If it appears that I have dwelled unduly upon our problems, it is simply because I happen to believe that an essential prerequisite to finding a solution to any problem is to first acknowledge that one exists.

In casting around for appropriate solutions, I think we would be making a serious error were we to attempt to view these problems in isolation rather than first seeking to ascertain whether there might not be a common denominator linking at least some of them. I say this because I often wonder whether many of the stresses and strains currently plaguing our society might not emanate from the fact that we seem to have abandoned our traditional quest for excellence and are now engaged in the futile pursuit of perfection. It would appear that we have elevated mankind's historic and perennial search for Utopia from the status of an unfulfillable dream to that of a legitimate, and equally unattainable, expectation.

A prime example of this trait is in the development of the Mackenzie Valley and other oil and gas deposits in the Canadian North. On one hand, we have the fact that by 1985, we will be importing some 50% of our oil requirements and probably significantly more thereafter with all the serious impact that this will have on our general economic wellbeing. On the other hand, there are some within our society who vigorously oppose any such development unless there is a cast-iron, water-tight guarantee that there will be no risks whatsoever of any environmental damage.

To provide any such guarantee is, of course, impossible, since there is no such thing in life as the total elimination of risk. When we step into a plane, into a car, cross the street, or even onto this platform, there is no iron-clad guarantee that we will safely reach our destination. However, by seeking excellence of performance -- in other words by exercising care and prudence and by adopting all appropriate precautions -- we can minimize the element of risk involved in any situation to an acceptable level. And, lest I be accused here of lacking in environmental concern, might I say in all humility that I speak as the representative of a Company which, in environmental matters, has not hesitated to put its money where its mouth is to the extent of over \$200 million.

There are social and environmental consequences in the development of our natural resources. There are, at the same time, economic implications of bringing them to market but, more seriously, catastrophic consequences in not providing the energy that fuels this economy and the necessary development work to provide for our future needs. This must and can be a fundamental aim of our middle road.

Another field in which this quest for perfection -- and perhaps a significant chunk of wanting to have our cake and eat it too -- has come to the fore is in our attitude towards foreign investment. For many years, we in Canada have enjoyed a standard of living that we have not been able to support through the production and export of goods and services, relying instead upon substantial imports of foreign capital to balance our International books. In recent years, however, many Canadians have become extremely hostile to foreign investment without, at the same time, appearing to have given much thought as to the consequences of being deprived of it or, indeed, how it might be replaced.

Assuming that a major drop in our living standards is not an option we would consider voluntarily; and recognizing that even under the most favourable of circumstances we will be unable to generate domestically the amount of investment capital we will require over the next couple of decades; it is obvious that we must all adjust our thinking to this fact. The realistic course of action apparently would be to create a more hospitable environment for foreign investment, coupled with a determination to ensure that such capital respects the laws and institutions of this Country.

Recent moves by the Hon. Jean Chretien indicate a move in this direction.

At the same time, both from the point of view of preserving our economic sovereignty and our National self-respect, should come policies designed to increase substantially the proportion of our overall investment coming from Canadian sources; an incentive to save; and an incentive to invest in our future.

This will not constitute an easy undertaking since the implementation of such measures will involve a move away from the redistributive and socially-levelling philosophies that have marked Government policy over the past couple of decades.

Nevertheless, it is indicative of the hard choices that will face our society in the near future. Such an approach would also involve recognition of the fact that "profit" is not a dirty six-letter word, but rather the means by which our entire productive machinery is fuelled and that incentive is the driving force which helps to bring this about.

In this vein, and given some of the attitudes currently prevalent within our society, it is indeed ironic that one of the most eloquent defences of the "profit motive" should have come from the Socialist Prime Minister of the United Kingdom, James Callaghan, in his landmark speech last month to the annual conference of the British Labour Party. It is even more ironic that it should have been left to the late Nikita Khrushchev to appreciate the role of incentive when he brusquely told a colleague who had accused him of leading the Soviet Union into capitalism: "Call it what you will; incentives are the only way to make people work harder".

In the delicate and sensitive area of management/labour relations, there is little question that the balance has tilted decisively in favour of Union power. This is particularly true of the public sector and the effect on the general public is all the more devastating because of the monopolistic nature of most services provided by the Government.

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Since the inherent workability and strength of the collective bargaining process lies in an equitable balance between management and labour, I find it disturbing that, instead of seeking to redress the current situation, our current aim seems bent on accentuating the trend which led to this imbalance coming about in the first place.

Certainly, we are well past the stage where the exploitation of labour exists in our Country. Unfortunately, the structure attitudes and remedies adopted by the labour movement in the 1920s and 1930s have not changed with changing circumstances, nor has the perception by Government of labour relations.

Labour relations are exacerbated by inflation and it is, therefore, essential that inflation be brought under control. However, Provincial and Federal Governments must recognize that fundamental changes are required beyond the control of inflation. Changes in law which would recognize the right to work, would require Government supervision; ^{OF} secret ballots for ratification; strike votes; and certification.

This would prohibit mass picketing and would establish Unions as legal entities subject to the same liability as business. We must restore the balance if true collective bargaining is to survive.

In this area, serious thought must be given to the direction we will travel once the controls are removed. The marketplace will put a ceiling on the private sector. Other guidelines will have to be established for those whose power is not balanced by economic reality, and we all must understand them and make them work.

The Federal Government will have to provide the example in this regard ensuring that wage settlements in the public sector do not lead those in the private sector, nor in fact do they exceed the increase in productivity.

At the same time, the growth of the civil service will have to be reversed, not in the rate of increase, but in absolute terms. Our experience in the private sector indicates that periodic examinations of our workforce, with

a view to examining the real contribution of individuals and occupations and the subsequent reduction in our employment, can increase efficiency, can reduce costs, and may even improve morale. Surely, this is possible, and indeed necessary, in all areas of the Government. The public sector rewards the accumulation of staff in its pay scales and makes it even more difficult to control.

Considerable discussion is evolving around the concept of tripartitism as a possible medium for upgrading the status of the management/labour relationship.

If this is used as a improved level of communication and consultation between management, labour, and government, then this is something we can all support.

However, it seems that tripartitism is being interpreted in quite a different way by the Canadian Labour Congress. The goal of this organization would appear to be a degree of legislative and administrative authority that is quite incompatible with the concepts and principles of a Parliamentary democracy.

I think it would be a very dangerous thing if any non-elected body -- be it business, labour, the bureaucracy or any other group -- was to gain such a measure of control over the affairs of our Nation. Either we are a Parliamentary democracy or we are not. If we are, then ultimate authority must rest with the people through the sovereign institution of Parliament.

Despite my previous comments and indeed my basic optimism, I am not at all convinced that we are coming close to winning the battle against inflation. I make this point simply because we seem to be pre-occupied with treating the symptoms of inflation rather than the root causes. Inflation (by the definition published in the Federal Government's Working Paper entitled "The Way Ahead: A Framework For Discussion") is a complex, economic, social, and political problem -- a problem stemming internally from expectations, real or imaginary, perceived by the Government to be desired by the voters, requiring programmes that must be financed by higher taxes or new money.

The former is politically more difficult to justify so the latter takes place in the form of higher debt and less immediate realization of the cost of the amenities which we enjoy but don't pay for. We must all realize that deficit financing cannot continue indefinitely. What we need, or think we need, we may not be able to afford. It is apparent that the costs of each programme must be clearly outlined to all those who accept them. Financing, in part, must come from those who make use of them in the form of front-end deductibles. Anything that is free is abused. As an example, Medicare (one of our necessary and desirable protections against the economic disaster of a prolonged and serious confinement) suffers many abuses. Here in Toronto in at least one of our hospitals, a disproportionate number of beds are being occupied by patients undergoing voluntary sterilization. Surely, this can hardly be considered as a charge against the average taxpayer under normal circumstances. The Unemployment Insurance Programme has come under a great deal of criticism, but we still provide unemployment benefits in one area and are short of employees in another.

Our entire approach to the problem of social programmes is rather like seeking to cure acute appendicitis with morphine injections. You may well alleviate the pain by such a course of action, but that is of little relevance when the appendix ruptures.

While some public spending may reflect the flowering of the political and bureaucratic ego, it is a fact that much of it -- particularly in the social sphere -- is based upon the most worthy and honourable of motives.

The trouble is that all too often these motives are incompatible with economic reality. Our motivation today seems to be dominated by the philosophy that " if it's socially desirable, then it's economically practicable ".

Be that as it may, however, I think that we are all slowly coming to realize that, as a society, we cannot spend what we do not earn; we cannot redistribute what we have not first created; and we cannot protect the helpless and the weak by destroying the will and initiative of the enterprising and the strong.

The paths and byways of history are littered with the corpses of once great and powerful civilizations and societies that became so imbued with an excess of humanitarian and egalitarian zeal and so intoxicated by the apparent wonder of their own technological and cultural accomplishments that they lost touch with the basic realities of the natural order. And, if there are any of us who are rash enough to subscribe to the theory that history is just that, then we need only to look across the Atlantic to the economic and social tragedy currently unfolding in the United Kingdom to perceive a modern-day example of what happens when the basic and fundamental laws that govern human existence are flouted and ignored.

Like all past societies and civilizations, Canada has now come to a crossroads in its evolutionary journey, and I would be the last to suggest that the choice facing us is either an easy or a comfortable one. In many ways, continuing along the same path we have trodden over the past couple of decades constitutes an attractive proposition.

Dreams are so often infinitely more glamorous and exciting than reality, and perfection a more lofty and noble goal than mere excellence. I suppose with the lessons of history notwithstanding there is always the hope that somehow, in some way, by some miracle, our particular generation will be unique inasmuch as it will be able to avoid the eventual consequences of its actions. Perhaps this is exactly the situation Plato had in mind when he observed that everything that deceives may be said to enchant.

In our increasing dialogue with the Federal and Provincial Governments, we see a growing awareness of the problem and a genuine desire to solve it. We see, too, a large number of our senior elected representatives and senior civil servants devoting hours that, even in the private sector, would be regarded as excessive in order to serve the people whom they represent.

We see a willingness to engage in a dialogue to seek the advice of the various factions that each of us represents.

They have requested that we, individually and collectively, contribute whatever advice, experience, and intelligence we might provide. We may dispute the timing as too little and too late, but we have a responsibility. It may be one of the first and, if not taken, could be our last.

I suggest that each of us recognizes the extent to which logic and reality have caught up with our society, as indeed they always eventually do. To have to accept that so much of the conventional wisdom which has guided so many of our thoughts and deeds over the recent past may be no longer relevant, is a pretty shattering blow for the human ego to absorb. That is why the eventual choice of direction we select for our Nation will be, in every way, a very real test of the degree of both our intellectual maturity and our moral resolve.

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J. P. GORDON /mcc