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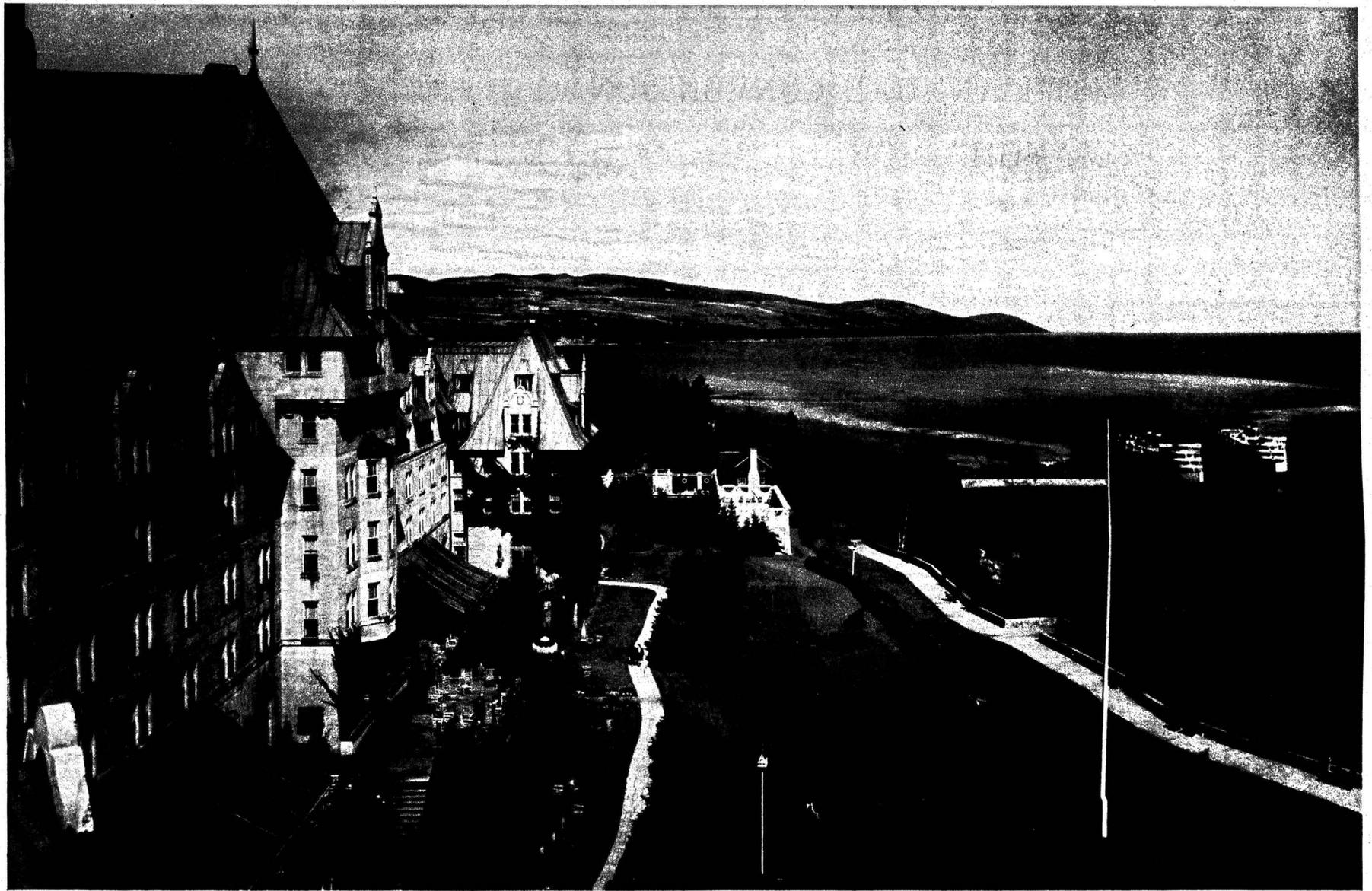
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*Manoir Richelieu, Murray Bay, Quebec, the site of IDA's 46th Annual Convention*

## I·D·A OF CANADA: 46TH ANNUAL CONVENTION

Manoir Richelieu, Murray Bay, Que.

### JUNE 17 - 20, 1962



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# Restoration of the Free Enterprise System Essential

By Arthur J. Milner,\* Retiring President, Investment Dealers' Association of Canada; President, Mills, Spence & Co., Limited, Toronto, Canada

Retiring head of Canadian investment dealers believes the time now was never better for another swing of the pendulum in favor of free enterprise. This requires, he says, selling the idea of the benefits of free enterprise to the poor and rich alike. Mr. Milner calls for an offensive which would stress personal contact—making use of the members of the finance and insurance industries. In answering the question "where did we go wrong", the investment dealer absolves the government and places the blame on the lack of education as to the true benefits of free enterprise. Unless action is taken, he warns, Canada's rising governmental expenditures will soon bring on a socialistic state. A reversal of the government's spending trend, liberalization of the profit motive, tax and budget reform are held out as the way to restore Canada's economic health.

I think that one of the best descriptions for the successful operation of the Free Enterprise System, which was entirely responsible for the build-up of the free world as we now know it, is contained in an excerpt from the address by Mr. Thomas W. Eadie, President and Chairman of the Board of The Bell Telephone Co. of Canada.



Arthur J. Milner

"Telephone service, as the customer sees it, is composed of two distinct elements. On the one hand, there is its technical quality, which I think I can fairly claim has improved continually over the years and today ranks with the best in the world. On the other hand, and no less important, there is the quality of the personal service which customers receive in their dealings with us as telephone employees. "Since the inception of our business, we have tried to pay heed to the wishes of our customers. In the years ahead we shall pay close attention to this aspect, endeavoring always to give service which meets not only our own technical

standards but also the personal preferences of the people we serve. "It is my firm belief that our Company will prosper only in a climate of favorable public opinion; that the goodwill generated by consistently good service is an asset which can prove of real value to us as we strive to improve revenues and control expenses. Customers who are convinced that we truly wish to serve their interests will be disposed to buy additional communications services from us, rather than from our competitors."

If you change the word "telephone" to "investment," it is a perfect description of our own industry.

### Imperfect at Times

The Free Enterprise System, in varying forms, has been in operation since the days of the Phoenicians. It has always been the history of the Free Enterprise System that as success crowns its efforts, abuses of power creep in, particularly in the second and third generations of the original pioneers. The result is that the system ceases to function properly, mainly from lack of further initiative and abuses of power and a period of chaotic conditions occurs which, in the olden days, took decades to correct.

Today, time can be measured entirely differently from 1000 B.C. The telephone, radio, television and jet airplanes—all by the way

products of the Free Enterprise System—can cover the world in a matter of minutes instead of what formerly took years. The result is that we can recover from abuses of power much more rapidly.

Only two generations ago economic power was centered in the hands of the moguls of industry and finance. Labor was unorganized and what might be termed "the good life" was a reality for only a small group. The rise of the labor unions created years of strife which gradually brought about a balance of economic power. The development of income and inheritance taxes has redistributed income and wealth in a massive manner. Two world wars have put tremendous financial strain on governments and helped to concentrate power in an increasingly bureaucratic central administration. What we are witnessing today is not the abuse of power by the moguls of industry and finance or by labor, but by governments.

### How to Woo Capital

Capital, which is the key to the success of the Free Enterprise System is an elusive commodity. We may think of capital as the prerogative of a few wealthy people. In fact, it is the savings of the nation, both rich and poor, and it is only when all sources of capital have the same objective that the Free Enterprise System functions correctly.

The requisites for wooing capital are simple:

- (1) A stable and sound government;
- (2) An opportunity for a reasonable rate of return, and a reasonable profit;
- (3) A climate of confidence in the future growth of the country;
- (4) Freedom from risk of governmental expropriations or unreasonable restrictions.

There should be no one in the world more interested in the success of the Free Enterprise System than the members of The Investment Dealers' Association of Canada. It represents our entire source of livelihood. There are other organizations such as the chartered banks, the trust companies, the insurance companies and large and small corporations whose livelihood also depends on the success of this system.

### Role of Investment Industry

It seems obvious that what people want and what the government would like to provide is "the good life." Public opinion is what ultimately elects and dictates policy and public opinion, therefore, must be cultivated so that it understands the workings and the benefits of the Free Enterprise System. We, that is those in the investment and financial industries, can make a great contribution toward the cultivation of public opinion. This can lead not only to the ultimate benefit of ourselves and our industry, but also to the benefit of Canada as a whole.

I sincerely believe that the timing is right for another swing of the pendulum in favor of the Free Enterprise System. This boom will not be achieved by extending social security from the cradle to the grave, and Canadians, I think, are beginning to appreciate this. Only the other day when I was driving in from Malton Airport in a taxi, the driver remarked to me "I am beginning to wonder whether I can afford all the benefits such as free hospitalization, old age pensions, etc., that the government is providing."

We must sell an idea—an idea that the Free Enterprise System is good for all, both rich and poor—the idea that progress requires the ingenuity and imagination of enthusiastic and self-interested individuals and institutions—the idea that what this country needs

is more opportunity and incentive and less governmental controls to achieve the outstanding progress that can lie ahead.

### Why Not Take the Offensive?

I ask you this question—why are we all on the defensive in defending the Free Enterprise System instead of being on the offensive? Public opinion is what elects governments and if we insist on refusing to attempt to influence public opinion how can we expect it to change? Paid radio programs and paid television can, to some extent, alter public opinion but personal contact is by far the best method. Our Association has in excess of 2,000 highly intelligent salesmen. The chartered banks have in excess of 5,000 branch managers in Canada. The insurance companies have in excess of 15,000 life insurance salesmen. Between us we have an army of over 22,000 extremely capable men and women who are contacting the public every day of their lives and I suggest it is high time that between us we organize this army to explain to the public that the profit motive which is the key to the Free Enterprise System must be encouraged, and not discouraged by governments through excessive taxes and excessive controls.

Why has socialism been so successful? Mainly because a great number of dedicated people have been willing to devote unlimited

Continued on page 4

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# Restoration of the Free Enterprise System Essential

Continued from page 3

time and energy to persuade the public in general that further redistribution of wealth can benefit all. Unfortunately, they do not realize that the redistribution of capital, if carried to extremes, can kill the goose that laid the golden egg. If the public, both in Canada and abroad, cannot foresee a fair return by investing their savings in Canadian enterprises how can industry hope to attain further capital in order to expand its operations?

## Where Did Canada Go Wrong?

"The twentieth century belongs to Canada" was an expression that was widely used only a very few years ago. The world knew that Canada had an abundance of natural resources, maintained a balanced budget, had a growth in Gross National Product that was second to practically no other country, and most important of all, encouraged the Free Enterprise System. From the end of the Second World War, we were flooded with Canadian and foreign capital, seeking safe and imaginative investments in our country.

Where did we go wrong? Let us not lay all the blame on our governments. After all, our own citizens elected our governments and they are only carrying out the

mandates of the people who elected them. The fault lies in our lack of educating this same public of the true benefits of the Free Enterprise System. We have watched Europe's and Japan's dynamic growth during the past ten years and have done very little to change our methods of operations to seriously remain a competitive figure in world trade. Here again it was not from lack of ability, but from lack of incentive that caused us to stand still.

In 1950 expenditures at all levels of government in Canada were equivalent to 21.2% of the Gross National Product. By 1961 these expenditures had increased to 32.4% of Gross National Product. In other words, from 1950 to 1961 while Gross National Product increased 210% the expenditures of government rose by 310%. This trend is not confined to this period but recent experience clearly indicates the transfer of an increasingly larger percentage of spending from the individual and corporation transferred to the government. How much further can we go before Canada becomes a socialistic state? The prospect of higher taxes to support rising government expenditure is with us now and income and corporation taxes may already be at the level of diminishing returns.

Taxes are never an incentive to

make money; they are only an incentive to spend money wastefully.

If government expenditures continue to absorb an increasing percentage of the Gross National Product it will eventually ruin the Free Enterprise System—a system based on the philosophy that the individual consumer knows what he wants and needs and that the total of individual demands results in the best allocation of resources and productive enterprise to satisfy those wants and needs.

## The Solution

If the governments of this country of ours had better regulated their expenditures so that today they were still only absorbing 21% of the Gross National Product, I am convinced that we would not be suffering from unemployment today nor would we have any dollar problem. Our wealthy neighbors to the south are also finding that they too must change their outlook and financial policy in order to maintain their place in this competitive modern world.

The profit motive, which is the basis of the Free Enterprise System, offers the greatest incentive that is known to mankind to expand industrial and commercial production and employment. Competition takes care of excess profits.

In order to re-establish the Free Enterprise System we urgently need an immediate revision of our whole taxation structure with the aim to encourage capital investment. We urgently need a balanced budget as soon as is humanly possible. We urgently need this army of those who know and understand the Free Enterprise System to take the issue to the people who, in our system, ultimately dictate government policy, before it is too late. Those in this room could form one strong battalion. The timing has never been more appropriate, the issues have never been clearer, the need has never been greater.

\*An address by Mr. Milner before the 46th Annual Meeting of the Investment Dealers' Association of Canada, Murray Bay, Quebec, June 18, 1962.

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Continued on page 13

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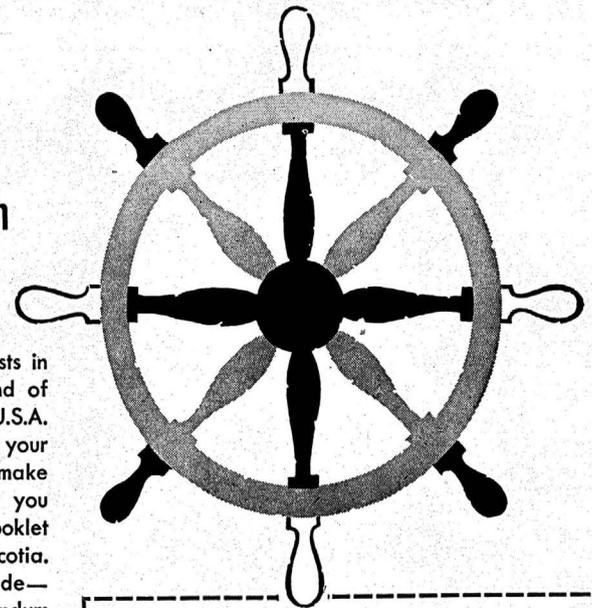
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# The Basic Principles for Sound Economic Planning

By Neil J. McKinnon,\* *President and Chief Executive Officer, The Canadian Imperial Bank of Commerce, Toronto, Canada*

Study exposes failure of state planning and misleading claims of its advocates, and outlines an affirmative non-central planning program to meet Canada's grave economic problems. What we need, Mr. McKinnon declares, is a different kind of planning—one that unleashes human effort, energy and creativeness, and not one that centrally regiments and controls. The crux of the recommendations made is intelligent planning for widespread public education so that a free government can legislate a tax system shaped to encourage growth, a fiscal system to preserve confidence in the future value of currency, and an economic-political climate conducive to investment. Warning that "we have reached the end of an easy road," the Canadian banker pleads that his countrymen face up to their problems and take intelligent action discussed.

Because of the interest of the Canadian Investment Community in the sweep of events, I have selected for discussion the subject of planning and performance. We hear much of planning nowadays but usually what we hear lacks both definition and conclusion. Yet within the concept of economic planning lies the shape, the direction and the destiny not



Neil J. McKinnon

only of our material life but of our liberties. In this paper I shall attempt to define what is meant by planning, to examine briefly the operation of economic plans on a national scale and their performance, to assess their strengths and their weaknesses, to seek insight into the motives of those who advocate centrally controlled planning, and finally to suggest the kind of planning best designed to serve the moral and material interests of our own society.

In this discussion the test of differing economic plans and systems will lie in whether they are likely to achieve our national objectives which have been expressed briefly in these words:

"A high and rising volume of production, of employment, and of incomes; all to be accomplished within an economic and social order which preserves freedom for each individual."

### What Is Planning?

Planning of course is not new. Each of us has plans about our affairs. Business concerns have their plans, short and long range,

sometimes looking far into the future. Our municipal and provincial governments and our Federal Government all have their plans usually expressed in their annual budgets. Our economic environment, the assumptions of and intrusions into business activities by different levels of government, the impact of fiscal policy or absence of policy all represent a sort of planning, though sometimes they seem more an accumulation of steps of expedience than an objective scheme deliberately designed to achieve a result. Nonetheless, in our industrial societies planning is constant; and it is through the multiplicity of planning in our society that the economic life of the nation is carried on.

None of this however is precisely what is meant by "planning" in the context of present-day discussion. The advocates of planning in this sense propose a central plan; not one for the separate individual or for the separate municipality or for the separate provincial government but for the nation as a whole. This type of planning thus encompasses all economic activity of the nation and within it of each individual inhabitant. Those who are frank in their advocacy of economic planning in the national sense make this purpose clear. Others less frank, or less logical in their thinking suggest that economic planning may affect only some industries, some prices or some methods of production or distribution. The whole fabric of any system of production and distribution, however, is so closely woven that controls in any sector of the economy inevitably have consequences in others and, to be effective, lead to eventual planning and control of the whole economy. Thus it is well to look at examples of the complete plan

for our guidance. There is much evidence of these plans and their performance to be found in the world about us but the most prominent one, and one which has been in use for nearly half a century, is the Russian or Communist plan and this is a useful place to begin.

### Forty-Five Years of Planning: How Has It Worked?

Discussions of communist affairs often have emotional overtones because of the brute force employed from time to time by Russia and other Communist States. Some nations which have not considered themselves communist have also in our times used such force although all, perhaps significantly, have been nations under highly centralized control. It is not these repelling aspects which are involved in this discussion but rather the economic plan itself and its performance.

While discussing this subject essentially in economic terms, it should be recognized that the consequences of centralized planning go far beyond economic considerations because the whole

structure of constitutional liberties which have been slowly built up over the centuries in free countries is involved. Part of the price for whatever questionable material advantages may have been gained is the obvious acceptance of a social structure where there are no effective safeguards or limitations on leaders who increasingly confer power on themselves, and who rarely can be called to account for the way in which they use it.

### The Gain and the Cost

We would be too complacent however if we claimed that the socialist or state-planning approach has, in concentration in individual fields, no advantages. Although reliable information is scarce, there seems to be no doubt that in output of heavy industry, the Soviet Union has surged ahead. A distinguished United States authority, Mr. Allen Dulles, in a statement to a Congressional Committee while he was Director of the Central Intelligence Agency, mentioned an estimate of the rate of industrial growth of the Soviet Union over the period since 1950

as from 9 to 10½% a year, or about twice the rate of growth in this field of the United States since 1950. A fully planned and centrally controlled economy is able, when it determines its priorities, to concentrate its efforts on certain particular lines of activity and the results, as we have seen, can be some spectacular achievements in certain limited scientific and technical areas. It is less easy to find the real costs of these achievements in terms of sacrifice in other directions. In the example we have been considering, developments in the field of heavy industry and new technology have been paid for at a heavy cost in terms of low living standards and loss of freedom.

### Controls at Work

There are other aspects of a fully planned society which, perhaps from some points of view, confer competitive advantages on the system. There are, for example, the rigorous controls on labor, wages and prices, and on the allocation of raw materials and equipment to one use or another.

*Continued on page 6*



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# The Basic Principles for Sound Economic Planning

Continued from page 5

other. It is an established fact that these controls have been used to minimize labor costs and to prevent the diversion of economic effort in the direction of satisfying consumer demands.

The socialist approach concentrates and centralizes the decision making process, over the whole range of the economy, in such a way that a very small group, or even a single person, must make many decisions which under the individual enterprise system are made by a variety of persons much closer to the particular problems involved. If the State owns and operates all the productive enterprises in a major country, it has of course immense reserves for covering up the costs of any mistakes it may make. Errors of judgment which would bankrupt an individual firm can be concealed by a state-controlled economy, although, in real terms, there is as great a loss in the one case as in the other.

## Can State Planning Become Efficient?

This points to the difficulty of adequate comparison of relative costs in a socialist economy. Where resources and capital equipment all belong, in effect to the Government, and where labor costs are also set by the same authorities, there is no objective method for determining the costs of one program or policy compared to an alternative. In the end, the decision is taken by political authorities, and, in the example we have been considering, by politicians who do not have to get re-elected. This is scarcely conducive to the most efficient use of resources, capital, and labor.

**Consumer Goods:** Because decisions have to be taken by central authorities and not by a market, troublesome problems are created with respect to consumer goods. The result often is that there are supplies of things which are not wanted and which could not be sold if the consumer had an alternative source of supply of his choice. In a period of great scarcity, when the whole consumer sector is, in any case, neglected, consumers must take whatever they can find. But if socialist societies hope to offer a wide range of goods for their population, they will increasingly run into difficulties in their efforts to adjust supplies to the tastes and preferences of the buyers.

**Quality Controls:** Similarly a persistent trouble has been to achieve and maintain satisfactory quality. Where Government planners, and not market choices, determine what is to be produced, quality controls are difficult to establish let alone maintain and where there is no competing supplier, the choice may be between shoddy goods or none at all.

**Service to the Public:** A closely related issue is that of service to the public. Where the normal pressures of competition do not operate, it is necessary to try, in effect, to legislate courteous and efficient service. Campaigns are waged to try to inculcate habits of good service to the public, but it is not easy to produce a synthetic substitute where there is no compelling economic reason for it.

**Agriculture:** Agriculture is an illustration of the problems. Russia with immense areas of rich arable land has faced persistent and serious food shortages when many comparable capitalist countries,

generally with much less extensive farm lands, have readily produced much more than their own requirements in nearly all branches of agriculture. For example, the U.S.S.R. employs on its farms nearly 50% of its total labor force while the United States employs in agriculture about 10% of its total labor force. But agricultural production in the United States is about one-third greater than in the U.S.S.R. The present Soviet Government has tried many shifts and adjustments, almost all in the direction of injecting more "profit motive" into agriculture but it still seems to be in a kind of permanent crisis.

**Industry:** In the industrial sector the U.S.S.R. has about 20% more labor than the United States and with it produces the equivalent of about half of the total of United States industrial production.

## Attempts to Decentralize

In recent years, some efforts have been made in the U.S.S.R. to overcome these problems. Until a few years ago each branch of industrial activity in the country was controlled by a single Government Ministry. Each of these economic ministries operated as a kind of giant combine, throughout the entire country, responsible for the total production in its particular branch of the economy, in accordance with the current annual targets set out in the five-year plans. This unwieldy system has been replaced by a network of local economic councils, each responsible for the carrying out of industry and construction activity in a particular region or area. This allows some degree of flexibility and injects into the planning process a more knowledgeable assessment of local circumstances and problems. Even so, however, the basic decisions must flow from the centre, and it has apparently not been easy to reconcile the two approaches.

Apparently housing conditions are such that relatively few families in urban areas enjoy more than one or two rooms, and frequently must share bathroom and kitchen facilities with others. The scarcity of household appliances except of the most rudimentary kind, and the general dearth of consumer goods and indifferent quality of those available, all seem to characterize state planning where it has been practiced.

## How Is State-Planning Working Out?

Before going on let us look at current press reports on the progress of the state-planned society in several parts of the world.

**HAVANA, March, 1962**—Premier Fidel Castro announced tonight nation-wide rationing of rice and beans, basic items in the Cuban diet. He also announced the total rationing of lard and cooking oils, items rationed in most areas since last year.

**MOSCOW, March, 1962**—Premier Khrushchev appears to have doomed a plan to produce small automobiles for Soviet citizens.

In a speech to the Central Committee of the Soviet Communist party, Mr. Khrushchev indicated that he believed the Soviet Union was still not rich enough for its people to have their own cars.

**HONG KONG, May, 1962**—The breakdown in industry is a more important fact in China today, in the opinion of Far Eastern experts here, than the better known breakdown in production of food.

There has been a severe shortage of raw materials available to factories, and the industrial areas have suffered as a result. The flood of refugees now beating on Hong Kong is looked upon as a by-product of a movement of

people away from the industrial areas to the country, where the chances of sustaining life are better.

**NEW DELHI, January, 1962**—The current economic policy of India aims at a continual increase of governmental interference in economic life.

These interventions have lessened the availability of credit to agriculture, increased interest rates to fantastic levels (some loans to farmers cost 80% and more per year), reduced farmers' incentives to expand output and caused an "anticipatory" splitting up of the larger land holdings.

Similarly, Indian industry must contend with all manner of governmental controls and regulations. For example:

A license is required to establish any new industrial enterprise and to add to the capacity of an existing one; restrictions even exist on the closing down of an inefficient factory.

**MOSCOW, March, 1962**—Soviet work incentives and individual bonus payments to speed up production were supported by *Pravda*, the Soviet Communist Party publication. Some factories already have been paying bonuses to individuals and to groups of workers. But it has not been a general practice to make such payments to individuals, especially those employed on farms. Premier Khrushchev proposed recently that incentive systems for individuals be made more widespread.

**MOSCOW, June, 1962**—Premier Khrushchev declared that a miscalculation has caused the 30% markup in the price of meat and 25% in the price of butter. He said that agricultural production had not kept pace with the rise in spending and queues of consumers had appeared in food shops.

An examination of the centrally planned economy may suggest that the revolutions of these states

are incomplete: that in the long run they may be followed by changes leading to a competitive market economy and eventually to greater individual liberty, individual enterprise, and to higher living standards. In the meantime it may be that the inner insecurity in the domestic affairs of such nations is one of the causes of their intransigent external attitudes.

Undoubtedly our planners could put everyone to work through their state planning. But the condition of living standards after nearly half a century of planning in the U.S.S.R. suggests the price that would have to be paid. It is instructive to compare the change in the lot of man in the planned society with that of free societies in any corresponding period of time.

## Progress of the Free Nations

Before returning to our own problems, we can usefully glance at the performance of other nations of the free world. Economic developments in the nations of Western Europe show clearly the vitality of the free enterprise system when the mainsprings of its productive forces and the enterprising use of venture capital are given full opportunity. By any criterion of comparison these economies have outstripped the current examples of socialized planning.

Figures contained in the latest annual report of the General Agreement on Tariffs and Trade, for example, indicate that nine European countries taken together, Belgium and Luxembourg, Denmark, France, Italy, The Netherlands, Norway, Sweden and Switzerland, more than doubled their industrial production between 1948 and 1960, while in two countries, Japan and Germany, the increase was almost five-fold. The rates of increase of Gross National Product, as an annual average, from 1951 to 1960

Continued on page 10



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# Canadian Industry Must Anticipate Competition

By H. George DeYoung,\* President, Atlas Steels Limited, Welland, Ontario

Canadian steel head bluntly cautions his countrymen against proceeding too quickly into free trade without forethought and planning, and prescribes what should be done to prepare for the competition of the 1970s. An important role is assigned to investment bankers who are asked to provide the financing for optimum sized companies, to become part of the national team to build Canadian industry for Canada, and to cease contributing to Canada's inability to solve its 1970 problem by selling Canadian plants to foreign owners. Also, manufacturers and industrialists are urged to form an employers' association so that a representative can speak for the industry on productivity and other problems. Mr. DeYoung points up the strong competitive advantages that Canada does possess — particularly when population and other adjustments are made; bemoans debilitating effect of foreign ownership on Canada's growth; would like to see changes made in the importation of semi-processed materials from the U.S.A.; and cites the record as to how far foreigners themselves go in following the free trade prescriptions they freely offer to Canada.

When the retiring President of the IDAC invited me to address the Convention, he suggested that a suitable topic might be "The Common Market and Canada" or "The United Kingdom, the Common Market and Canada."



George DeYoung

Since that time his firm<sup>1</sup> has published a paper called "Canada and the Developing European Economic Community" which, in much more detail and in a form completely beyond my ability, gives one a complete picture. I commend it—particularly since I am now free to discuss Canada's competitive picture against this ably prepared background. There may be some differences in emphasis, however.

There is no doubt in my mind that Canadian manufacturing industry must waste no time in preparing itself for the competition of the 1970's. A positive dynamic activity must be planned and gotten under way as soon as possible because trade in the world will be liberalized step by step from now on. This process of liberalization will continue regardless of the government in power in Canada, the rate of the procedure of change being the only differentiation between parties in power.

However, I believe we in Canada have no reason to give up in despair. We are fully able to adjust to world conditions and we are doing so. A large segment of Canadian industry can compete now—a larger segment can become competitive. With some adjustments in our thinking and in our concepts of the makeup of a competitive economy, we can restore our growth rates so that we will again be talking about our rosy outlook.

### "Don't Commit Suicide"

While I believe trade will and should be liberalized, I do not believe we should commit suicide in order to more quickly arrive at some people's idea of Heaven. A reasonable, logical, sound Canadian solution to this problem of change can be achieved. It surely must be more in the national interest of Canada to have as close to 100% as possible of the economy healthy than to arrive at once at the goal with only about half of Canada able to survive.

Those people who advocate free trade at once for Canada tell us that if our nation would specialize in those things which it can do better now, without trying to improve and expand in other ways, we would be able to compete in

the world market. One of the things Canada seems to have an unlimited supply of, at a very low cost, is advice on how Canada should do things. Even here we do not seem to have a monopoly since visiting officials from the south and from across the oceans seem also to have ample advice for Canadians.

We have recently been advised that we should join the organization of American states. No one has yet told us what this will do for Canada but it seems to have some advantage for other people, and thus this advice is becoming persistent. We have been told that we should not trade with Cuba, Red China or Russia, because this may be detrimental to other people. The advisors do not worry too much about whether it is, or is not, detrimental to Canada to reduce our sales and employment still further.

Recently we have been advised that we should get even farther ahead of others in this race to reduce our tariffs and allow our markets to be opened still more to foreign manufactured goods. The reasons given are that freer trade will be advantageous to the United States or to the Europeans or to the Japanese in exporting their manufactured goods. As usual, those who are mostly interested in more importation as a national goal would import these ideas too. I have, many times, stated that the advocacy of immediate free trade by foreign proponents comes under the definition of, "How can we get into your market and keep you out of ours?" When you look at the examples set by those offshore people who are advocating that Canada should have free trade now, you will wonder somewhat about their sincerity.

### America's Reaction

In an earlier talk I suggested that Canadians might take a look at the American market which was the closest one to export to. I said we might not make much profit but we could absorb a lot of overhead by these sales. The following week the American magazine *Iron Age* carried in its editorial the results of an American scurrying to Washington to talk to the officials there about this dire threat by a Canadian. The article quoted an American Government official as saying, "We are keeping a close eye on this thing and this is the understatement of the week." Evidently opening the American market is not considered part of the freer trade idea which Americans are now sponsoring.

I had the privilege of being one of the C. M. A. group representing Canada at the International Conference of Manufacturers in London, England. Mr. William Blackie spoke for the United States on the formation of the Common Market, as follows:

"From our side, the threats lie in the possibility that regional economic blocs might act in accordance with an inherent tendency to be discriminatory in their dealings with those outside. The promises lie in the hope that there shall be no such discrimination. And it might as well be recognized in passing that, while the idea of expanding markets for our products is naturally attractive to us, the concomitant prospect of more or stronger competitors is not always viewed with quite the same universal satisfaction.

"To be sure, we do believe in the principle of competition. But when it comes to the constructive practice of competition, I am afraid that some businessmen would prefer, as we sometimes express it, to 'Rise above principle.' For reasons which I personally have never been able to appreciate, there seems, furthermore, to be an idea in some quarters that the principle of competition stops short or should be made to stop short at international boundaries.

"You will observe that in our

thinking about the trend of developments, we are not entirely without American self-interest." It would be more convincing to see some concrete examples of what the United States will do before Canada takes on another deal.

We have heard a great deal about the free trading arrangements within the Common Market but my company's sales force located in Europe reports that as trade has become more liberalized and flowing more freely across

Continued on page 8



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# Canadian Industry Must Anticipate Competition

Continued from page 7

borders, the transmission tax has increased as much as 10% in some of the countries in order to restrict the flow of manufactured goods within the Common Market. Other means than tariffs are being found to serve the same purpose.

## Japan's Idea of Trade Liberalization

The Japanese are very vociferous that the Canadian market should be open to them and they speak very strongly for liberalization of trade and, as a matter of fact, have made a schedule for the liberalization of trade. However, in most of the instances wherein trade is to be liberalized, this merely points to the removal of the embargo, leaving the tariff structure to limit or control the import. I will quote from a letter from our sales representative in Japan.

"Though the present customs duty on sheets and plates is 15% a.v., this may be changed later on and most probably increased more than reduced.

"The Japanese Government has been talking for quite a time about liberalization of trade and exchange and the I.M.F. had urged some steps in the desirable direction. After all the negotiations, Japan liberalized to some extent the imports of some 45% of all the imported commodities, though most of these are either badly needed raw materials or commodities whose import is either insignificant or of no particular interest to Japan. Most of the important commodities like steel, etc., are still strictly controlled and it may be expected that their imports will be free at the very last.

"But since liberalization of trade is a matter that cannot be avoided, the government is considering a revamping of the present customs tariff. A special commission made quite a few recommendations and it seems that most of the duties will be increased so as to protect

the Japanese industries even after the trade had been made free.

"Taking all these facts into consideration, it is difficult to believe that more of our stainless steel could be imported into Japan."

The method the Japanese are using is very different from that which we are advised in Canada should be done with Canadian industry.

The Japanese Government has established ministries to help industrialize the country. One of these has started an acceleration program for trade and payments liberalization. A ministerial council, established for this work, has issued a report which I find most interesting. I would like to quote from it.

"The present deterioration of Japan's balance of payments is attributed to the increased domestic demand supported by marked desire for growth on the part of private sectors.

"However, the expansion of the economy ought to face a limitation imposed by its external payments position (for improvement of balance of payments). The export promotion measures should curb domestic demand."

**Comment:** In other words, they recognize the need for restraint—controls and forethought.

In the section of the report on the measures for levelling the industrial structure, we find this:

"The machinery industry and the chemical industry should be fostered on a priority basis since they should be Japan's core industries. At present these industries are still inferior in respect to scale, technical level, capital composition, and marketing potential, as compared to first rate western industries. Their international competitive power should be strengthened with a faster pace with a view to coping successfully with accelerated trade liberalization.

"In parallel with these measures necessary steps should be taken to enlarge the market and in encouraging the people's patroniza-

tion of domestic products as well as in expanding export trade.

**Comment:** The Japanese do not find it objectionable to urge the use of Japanese goods by Japanese.

In the schedule for trade liberalization, we find reference like this one for the alloy steels industry:

"Alloy steel and the like which are still subject to restrictions have a poor competitive power in international markets due to their limited scale of production and enterprise in addition to existing high price level of non ferrous metals and raw materials. Therefore, necessary measures should be taken to secure funds for equipment rationalization and to lower raw material prices before liberalization by October, 1962."

The Japanese seem interested in exporting while they keep the domestic market. They are working at industrialization systematically and not exposing industries to competition until they can compete.

## Australia's Experience

I would like to quote from an article by Lomard in the London *Financial Times* on this subject.

"I am hoping that Australia's recent decision tacitly to recognize that a country with a vulnerable payments position cannot afford to eschew the use of import controls altogether if it wants to play a full part in world economic expansion will draw attention to the need for a re-examination of a notion which at present plays a large part in shaping international economic management. It is the one that supposes that resort to import restrictions has such harmful effects on trade that every country should do its utmost to contend with external payments pressures solely with general economic controls.

"Australia was, up to a short time ago, a firm believer in the doctrine of full and irrevocable liberalization of imports. So convinced was she, in fact, that when her decision to complete her journey down this path combined with a fall in export prices and the re-emergence of inflationary stresses to precipitate a new payments crisis in 1960, it was decided that corrective measures would be exclusively in the form of

monetary and similar restraints on business activity.

"As it happens, the balance of payments did respond to the treatment in lively fashion. The trouble was that the cure had such a debilitating effect on the country's economic system that, besides abruptly interrupting growth, it generated an unemployment problem that all but cost the Menzies Administration its parliamentary majority at the December general election. Not surprisingly, the Australia authorities have since been doing some urgent re-thinking about their approach to economic management. The outcome is a smart back-peddalling operation by Australia on the question of the use of quantitative import restrictions.

"It has been observed that the prospect for periodic application of powerful restraints on the growth of demand will itself tend to sap the business community's confidence and thus make it less willing to embark on the new development needed by a progressive economy."

## Advice for Canada

Does not this description of the result of application of monetary restraint to an economy sound exactly like what happened in Canada where growth has been insufficient?

The United States, England, the Common Market, Japan and Australia are preparing for liber-

alized trade but are not sacrificing their industries or risking great unemployment to accomplish this goal.

Again, I am very sure that the trend in the world is such that trade liberalization will come about, and I believe it is a good thing that it is to come about. I do not believe that Canadians need be so naive as to march merrily along this road with no forethought and no planning as to who will survive and how he will.

I see nothing in other countries which says, "Open the gates—let the chips fall where they may." It seems easier for the people who do not own the chips to say this.

I believe a sane and unimpeded assessment of our position will show the steps we may well take and if taken will verify my optimism. Unfortunately, we have been besieged with statistics showing our lack of growth in the overall economy which have been interpreted to indicate that all industry individually is in a precarious plight. This is not so. Broadly speaking these averages are misleading.

The Conference Board publication, No. 73, reports on costs and competition. This study indicates that Canada in 1960 had costs higher than those in the United States, the United Kingdom and the European Economic Community.

In distributing the unit cost, the adjusted table showed as follows:

	Material	Labor	Overhead	Sales	Other	Total
Canada	11	-1	0	0	0	10
United Kingdom	3	-5	-4	-7	-3	-16
Common Market	11	-6	-4	-3	-1	-3
Latin America	19	-1	5	-3	5	25
Australia	14	3	-2	-1	2	16
Other	13	-6	3	-5	4	9

This, then would point to our being 26% higher cost than the United Kingdom and 13% higher cost than the Common Market, and in our case all because of the cost of materials, sales and overhead. These studies are on 45 products which is such a small number that no generalization of the economy should result.

I found the material costs hard to accept until I recognized that a number of the materials were semi-processed materials imported from the United States. Domestic materials were only 36% of the raw material content. A bit of change in our approach on what raw materials we use could well rectify this matter. This change, I am convinced, must come in our branch plant philosophy which, as I will point out during my talk, is not conducive to dynamic competitiveness in many ways.

which are accepted as comparisons are those of Gross National Product and Gross National Product per Capita.

According to the 12th O. E. C. D. Economic Review, Canada makes a particularly bad showing in growth of Gross National Product per Capita, being only 1% above our 1953 level and 4% below 1956. It is the only O. E. C. D. country in this category since all the rest show substantial gains—the average being 29%. Here again, I'm not sure this proves that our productivity is bad, as much as it proves that our population grew over 10% more than theirs, since the Common Market population is up 6% and our 16%. Those nations which had whopping big gains in Gross National Product per Capita had only 1 to 3% gains in population, with the exception of Germany and the Netherlands which had about 10% gain in population. If we had a

## Growth in GNP

Other general measurements



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population increase of 6%, our gain would be 27%.

In industrial production, Canada has increased more than the United States whose increase is 19% and ours is equal to the increase of the United Kingdom at 30%. The average of the O. E. C. D. countries is 55%.

Our manufacturing industries have kept pace with those of the United States, 118% for Canada, 117% for the United States. Our actual Gross National Product and income per capita are certainly favorable.

Other comparisons of production ratios are shown in Table I.

Industry—	Canada	U.S.	U.K.	O.E.C.D.
Food	128	120	119	133
Textiles	114	110	90	117
Chemicals	161	147	157	202
Metal Working	102	112	140	168
Basic Metals	131	90	132	170

Our Gross National Product per employed worker measures our growth as shown in Table II.

	Canada	U.K.	W. Ger.	Japan
1953	\$4,750	---	---	---
1950	6,038	\$2,916	\$2,581	\$862
1951	6,098	3,179	3,018	---

Increase: About 22%—but still way over the competition.

By using various broad measures, we have an indication that our manufacturing industry is a good industry. It doesn't compare as badly as its reputation indicates. Why then doesn't it just start off and grow? Let's look at some details which contribute to the averages:

There were in Canada in 1958, 35,931 manufacturing establishments, employing 1,289,600 people.

33,577 manufacturing establishments (93% of all the industry) employed less than 100 people each—the average is 13 per establishment.

These plants had a value added per employee of just less than \$6,000.

In 1959, 21,630 establishments sold less than \$100,000 and had a value added of only \$3,665 per employee.

11,163 establishments sold from \$100,000 to under \$1,000,000 per year and had a value added of \$5,535 per employee.

Here are 32,800 manufacturing establishments (about 90% of all) with a low value added as a productivity ratio that are being exposed to rapidly liberalized trade against protective large market blocs whose ground rules call for rationalization, capital investment by incentive, and government planning, in a climate of management-labor cooperation.

**Small Competitors**

The Canadian firms include those whose outlook is completely local and whose competition has been local. They were built under the concept that Canadians have historically wanted—many small competitors fighting for a local market—not really desired to be a major support of the economy. When they are exposed to import competition will they meet the measurement of price in the market place? They may if all things else are equal.

Well, should we be comparing these small, low productive Canadian industries with foreign industries? Should we be establishing a climate under which they can compete as they are? Or should we endeavor to establish a climate and an incentive to make them enterprising enough to get in condition to compete under 1970 conditions of liberalized trade.

We have two other classes of industry in Canada.

There were in 1958, 2,235 establishments (almost 6%) that employ between 100 and 999 people each—average 260.

These plants have a value added of \$8,370 per employee—just about twice that of the 90%.

We had also, in 1959, 2,624 establishments that sold between 1 million and 5 million dollars worth of goods annually. The value added per employee was \$7,350.

Also, we had 119 establishments (less than 1%) employing over 1,000 people — averaging about 2,300 each.

The value added per employee in these plants is \$8,500.

In 1959 there were 770 plants selling over 5 million dollars annually and these plants had a value added of \$10,000 per employee.

Perhaps this is a time to bring out a new word for competitive industry, a word good for the economy—optimum size industry. This 7 to 10% of Canadian industry evidently is meeting the criteria of the price in the market. Under a national competitive climate they would be the ones who would do even better. We need 20 or 30% of our industry in this

class. A team effort which Canadian investment men could well sponsor could build the climate to achieve this in Canada.

The forces of the buildup of the Common Market with the threat of entry of England (by no means a sure thing) which will mean the end of the Commonwealth as we know it tradewise by 1970, may be what is needed to change the historical concept of Canadians as to our economy.

**Help From the Canadian Investment Community**

The concept of furnishing world markets from Canada for manufactured goods as well as for raw materials is entirely feasible—more so than from Japan. If our marketing managers will find the

markets and the competitive prices, our manufacturing and engineering managers will be able to design the optimum plants to meet the requirements, financial managers can find the investors and the finances (we will need a lot of investment), our sales managers can build the organization to make the sales, and our top managers will have the courage.

If the men who control investments in Canada, will become part of the national team to build Canadian industry for Canada, we can take advantage of our raw material and manufacturing position.

The studies of the changes needed to make cooperative efforts between primary, secondary

and service industries, labor and our government, are complicated and tedious. They will require discussions and confidence never before displayed in Canada.

This sort of cooperation is discouraged in Canada, if not because it's illegal, because of the fear that it might be. This fear is very real and more effective than the law. A clear delineation of the rules under which Canada is to fight in the competitive game is absolutely necessary. We must know whether we are to continue to fight each other while we point with shame at our statistics, or will we form a team and compete for the market under rules which give us a chance to win?

At the Kingston conference be-

*Continued on page 10*

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# Canadian Industry Must Anticipate Competition

Continued from page 9

tween management and labor, we found some agreement on this need. The Canadian Labor Congress has come out definitely for change in laws on combines.

Some of the remedies that have been suggested for our industries are: planning at a governmental level, labor-management communications like those in the Common Market, and many more.

## No Simple Solution for Canada

I am strong for the team approach but cannot imagine Canada taking the Common Market countries' solution directly to Canada. We are spread across great distances and are not a series of compact units. We do not have a unified employer's club, nor a unified labor club. We do not even have unity in individual unions. We do not have a long history of a government interested in manufacturing industry as a major economic support.

There is no reason why we cannot have cooperation which will result in a Canadian solution for these differences—whether it be on an industry, an area, or a national basis.

The need for more unity in industrial management is apparent. This historic factionalism, and individualism is contributing to the difficulty of obtaining a Canadian solution to a team effort for competitiveness.

Management is going to have to get together if we are to have a forum where a representative can speak for industry. The representatives of labor have much less difficulty in presenting an agreed-upon position. Who can do this on an industry basis, a provincial basis or a national basis, for the manufacturers and industrialists of Canada? Unless it can be done there is no way to get a forum which all agree is needed wherein we could discuss the problems of productivity or even what makes up a productivity measurement, or what will we do about dis-

placed workers. Without a Canadian employers' association dedicated to the Canadian problem it is difficult to determine who will represent industry on a government - labor - management forum.

## Labor's Responsibility

Labor would like very much to find a basis upon which to cooperate. It is entirely unrealistic to expect an elected labor representative to say to those who elected him, "Just accept the definition of productivity that the one manager you happen to work for gives you. Never mind if all of the other 36,000 company heads have a different one." It is unrealistic to expect an elected representative to say with no thought for his future or to his members' status, "Just accept that any disruption to you job will eventually work out all right." They need to tell their members something more concrete.

There is a demand and a need for a productivity measurement which can be accepted by all. This again requires a forum in which this can be discussed.

A good productivity measure can indicate that something needs to be done, and how much, to insure continued success in passing the real and final measure of profitable operations at market prices. Even this is not a universal tool because it can only measure productive efficiencies—not marketing, innovating, research, product development, adaptation of new technologies, which are the things behind the momentary or continued good productivity measurements. What you do here determines whether you compete in 1970.

The National Productivity Council is working in these areas and by taking little steps for little feet hopes to avoid major setbacks in establishing a forum. It is working in the area of economic data dissemination and in the promotion of research and develop-

This latter work has again pinpointed another major problem for Canada — foreign ownership, branch plants and subsidiaries. The report to the Productivity Council by the Defense Research Board on the Canadian electronic industry and prospects for research and development, states that the Canadian electronics industry is 90% foreign controlled. It is 1/27th the size of the United States industry but does only 1/200th the amount of research. This foreign control prevents Canadian problems being researched. Partly as a result the Canadian industry shows no growth compared to 15% per year growth in the United States industry.

As trade is further liberalized in the world, the small branch plant drawing on its American parent for parts and research will not grow sufficiently to help absorb our labor force. Assembly of parts may well become unnecessary in Canada as the entire commodity is imported. Hence, again the optimum sized plant, able to supply the Canadian market and export too, will be the one to survive—the branch plant the one to close.

Canada's financial men have a part to play here. The more Canadian plants you sell to foreign owners, to be operated as branches, the more you contribute to Canada's inability to solve its 1970 problems.

However, recognition of our problems is becoming more widespread. Our position in the world is becoming relatively better.

## Prices and Costs in Canada Are Favorable

The index of prices shows that here is one of Canada's strengths. Our consumer goods and wholesale price indices are lower than any of our offshore competitors, our prices are quite stable and if we use a team effort of management, labor and government to keep them that way, our relative position will continue to improve. The index of hourly earnings shows that the pressures in the Common Market are in Canada's favor with Canada at 131, the United Kingdom at 154, and Germany at 163.

Stable prices are a must. Rising prices are incompatible with eco-

nomie growth which is a basic need for Canada. The economic policies which promote this must foster adequate research and development, technical education, increases in efficiency, a skilled and adaptable labor force, a high level of investment, active competitive conditions and progressive vigorous leadership of our team. Industries dedicated to the Canadian national interest are a must to carry this out.

So, through a logical assessment we find that we have problems to overcome but that we are in a good position to overcome them. Let us re-examine our goals—

maintenance of price stability— establishment of a larger percentage of competitive industry —establishment of communications and cooperation for the achievement of economic growth.

Let's build our organization to achieve our goals.

Let's establish our points of measurement and timing so we will be ready for 1970.

Let's take action and we will come out a winner.

\*An address by Mr. DeYoung before the 46th Annual Meeting of the Investment Dealers' Association of Canada, Murray Bay, Quebec, June 19, 1962.

# The Basic Principles for Sound Economic Planning

Continued from page 6

are equally impressive. In Germany the figure is 7.2%, in Italy 5.8%, in The Netherlands 5.1%, and for the Common Market countries as a whole 5.3%. Figures for the average annual growth of industrial production are even higher; the figure for Germany is 8.8%, and for the Common Market countries as a whole 7.4%. In all cases the standard of living of the populace has at the same time shown striking improvement.

## State Planning for the West

In view of the limitations on human welfare and human liberty in the fully planned society, one may wonder why it is that we hear proposals that we must have more planning and that the public sector must spend more money and the private sector less—which is another way of saying that the individual may make fewer decisions for himself while an anonymous person within government may make them instead. Such advocacy is said to be based on a desire for greater freedom for individuals, freedom from want, the remedy for social ills, the road to progress, the moral way of life; in brief, the epitome of good. It is also suggested that those who oppose or question these proposals are by nature selfish, reactionary, opposed to progress, opposed to improvement in the way of life of the masses and seeking only their own material advantage at the expense of society as a whole; in short, the epitome of evil.

Unfortunately all this is usually expressed in emotion-charged generalities; there is usually no attempt to define precisely the

"social ills," the "progress," the "moral way" which planning is designed to remedy or achieve nor how it is that these ends differ from our present objectives. Usually those who are to do the planning are not identified nor are their qualifications discussed. It seems to be implicit, however, that those who demand planning in this sense lack faith in the efficacy of a system which places first importance on the independence and free choice of the individual. In the face of all the evidence that the centrally planned and controlled society is characterized by low living standards, perhaps it is worth our while to attempt to gain some insight into the motives of those who claim that the system of free enterprise does not best serve the interests of the people.

## Who Are the Advocates and What Do They Seek?

Some of these advocates may be interested in undermining faith in our present social and economic organization. Others likely are people who are sincere, and influenced by idealistic objectives, but who have not fully and realistically thought out the economic impact and the practical results of their urgings. Still others may be opportunists less concerned with the consequences of their proposals than with their ambitions to achieve publicity and positions of influence.

Some too may be people, sometimes identified with the field of education, who apparently seek to achieve more public notice or positions of influence than others who are more intent on intellectual pursuits, and more aware of the complexities of

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economic policies and the pitfalls that await any simple plan to re-shape our economy to suit some preconceived theory.

**The Intellectual Failure of the Advocates**

When discussing the international payments problem of the United States with an experienced American economist, I asked him why there seems to be so many Doctors of Philosophy in political economy whose expressed thoughts seem far removed from the realities of economic organization. His answer was frank: that those most heard from base their theories on a closed economy—an economy not influenced by external relations—and that economic theories based on a false assumption are apt to be misleading.

Subsequently I asked the same question of a group of Canadians experienced in the practice as well as the theory of political economy. Their answer was rather more inclusive. It was that universities nowadays tend to try to make a science out of economics and, on the basis of deductive reasoning which would be appropriate in a true science, the whole structure of economic theory is deduced from certain established first principles or hypotheses; and anything that does not conform with this system of abstractions and deductions must by definition be wrong and therefore rejected. This seems to be another way of saying that these economic studies attempt to make a science out of what to a great degree must be an art and that they reject an element without which the study becomes pointless; the element of the motivations of man.

**A Real Problem in Our Society**

Our generators, machines and computers are precisely measurable, controllable and predictable but the causes of the release of human energy are not; least of all the ultimate source of all energy and creativeness: the human mind. A real problem in our society today is to find the way to keep free, to foster and to incite that great source of all our accomplishments; the restless exploration and creativeness of the human mind.

Thus it is not enough to expose the failures of state planning and the misleading claims

of its advocates. We must discover how to create an environment for the greater flowering of the mind and the greater development of human energy. The problems in our own country of which we are so aware suggest that we need not less but more planning. But an examination of centrally planned societies suggests that planning ought not to be designed to regiment and control but rather to release and to free human effort in all its forms, to unlock the still unused potential of energy and creativeness existing within the people. There seem, however, to be limitations on the capacity of our governments to plan an environment needed for this purpose.

**A Basic Problem in Government**

Many students of political science believe that from the inception of our present form of democracy until perhaps the past quarter-century government was conducted by an intellectual elite, and that the public at large, while reserving the right to elect or to remove them from office, was prepared to follow leaders of high principle and purpose without too much questioning. This seems not to be as true in our generation. The willingness of the public to follow leaders of whom they approve seems to have been replaced by a demand to know and decide for themselves. The decisions are made by the many, although it is not easy for the many to have a full understanding of the nature of all our national problems. Leaders in public life thus tend also to be followers of public opinion: this sensitivity to assumed trends of changing opinion tends to limit public planning to periods of public office.

Business planning, however, can rarely be confined to relatively short periods; often a minimum of 10 to 15 years is involved and frequently longer. Although business managers may be discharged at short notice they will more likely, if competent, be held accountable over long periods of responsibility, their policies must take account not only of the need to serve the ultimate interests of the people as a whole (because any other course would invite either bankruptcy or state intervention) but also of the need for growth and success of the business long after they are gone. Thus a governmental change in

fiscal or trade policy may not be accompanied by immediate response in business enterprise unless there is belief in its continuity. And this can only be assured by widespread public knowledge and approval.

Often one may hear that a government should do this or a government should not do that but it does not make much difference what it does at any given time unless it has or can gain enduring public support for its policies; otherwise its policies would likely be reversed later. Thus, it is public opinion that is important; an economic climate favorable to growth will not be created without widespread public knowledge and approval. This is especially true in Canada because in addition to the federal area the attitudes and taxation policies of the provinces have an important bearing on the field for business enterprise.

**Our Slower Rate of Growth**

As we are all aware, our existing system of economic organization, encased and limited as it is by present-day levels of taxation, did not exist before the war and has not been exposed to a sustained test in a world of plenty and intense competition. It is only in the last few years that both competition and availability of goods and resources elsewhere have come into play in the post-war world economy and it is significant that during this period our own rate of growth has slowed so noticeably. In seeking solutions for our problems there is obviously little that we can do to influence the policies of other nations. Other nations will in any case act in what they consider to be their own ultimate interests. We must do what we can for our own benefit and this clearly lies firstly within our own borders.

**An Approach to Intelligent Planning**

There seems to be universal agreement that as a first step we should create greater incentives to effort by removing or at least limiting the deterrents imposed by our tax structure. All of us have heard frequent calls for reduced taxation and we have also

heard complaints from various Ministers of Finance that there are so many built-in expenditures that even at the present high levels of taxes it is not possible to balance the national budget. It is difficult not to have sympathy with the position of the Minister of Finance.

**A Tax Structure to Encourage Growth**

But as we are faced with the need for creating more jobs, are we not eventually going to have to approach this problem from a different direction? No one knows with certainty at just what level taxation causes effort to diminish or new enterprise to die in embryo. While recognizing that both corporations and individuals must shoulder heavier taxes than before the war, and that the present high rates limit the efforts of individuals, of management groups, and of capital, there is nevertheless a level at some point which people will accept. The precisely right level may never be found but we should at least try to strike it, remembering that the important thing is to have sufficiently strong incentives so that whether or not people succeed in enhancing their sales or incomes, they will keep striving to do so.

Whether or not efforts turn out to be successful, the important thing is that they be made because it is clear that without full effort we cannot progress. And to evoke full effort, consideration of estate taxes is also necessary because beyond a limited point few will assume a risk of loss if a major part of the fruits of his effort is to be taxed away at death. Our public leaders have shown their recognition of this broad problem and have expressed their intention to have it independently studied.

A realistic approach to a tax scale which will restore an adequate system of incentives obviously leaves unanswered the question of where to find revenues to replace those lost. It should not, however, be overlooked that if taxes are reduced, the loss of revenue may be temporary. If reductions in tax levels finally succeed in restoring eco-

nomical growth, then the lower rates applicable to larger incomes, to an increasing population and to more business enterprises earning more profits will eventually produce in the aggregate more income and corporation tax revenues than at present. This, however, may not come about for some time. But reform of the tax structure is nevertheless necessary to restore adequate growth in the economy and in the meantime alternatives will have to be found to enable the national budget to be balanced.

Among them of course is the curtailment of expense. Successful Ministers of Finance have complained about the high level of built-in expense, the fixed expenditures over which they could exercise no control. Such problems are relative: if pressures from public opinion to reduce expense were greater than those to continue spending, there is little doubt that expenditures would be cut.

**Value for Money Spent**

An aspect of this problem is that we should get value for money spent. For example, we spend on national defense about \$1½ billion per annum and, while we do not want to spend less as our share of obligations in the defense of the free world, it is admitted that much of the equipment of our forces is obsolete. But our leaders, especially those of our forces, are unable, without the support of public opinion, to do anything about it. An observer, perhaps unkindly, recently commented that much as our leaders regret it, our expenditures in the category of national defense have become embarrassingly similar to a form of social welfare.

Two of the most difficult problems facing us today which have been giving concern to our government finance officials have been the large deficits in our balance of international payments, amounting to something more than \$1 billion per annum, and our large recurring budgetary deficits, amounting to something

*Continued on page 12*

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## The Basic Principles for Sound Economic Planning

Continued from page 11

less than \$1 billion per annum. A more detailed analysis of our national accounts shows transfer payments as a percentage of personal disposable income to be about 12% in Canada compared with 7% in the United States. These payments represent consumption not related to corresponding production by the recipients. As personal disposable income in Canada is about \$25 billion, the greater relative expenditure in Canada amounts to something over \$1 billion. It is not a coincidence that this amount is in the same area as our international payments deficit and our federal budgetary deficit.

During the post-war years some observers have advocated as a remedy for an imbalance of for-

eign payments, the use of devices such as exchange embargoes and import quotas. These measures deal only with the symptoms and not the causes of the disease. A more basic approach was suggested recently in a statement by the Minister of Finance when referring to the stabilization of the Canadian dollar. He said:

"The . . . resources . . . available to the Government and its policies both domestic and international will be directed to maintaining the stability of our exchange rate."

### A Possible Solution

Perhaps in more specific terms a solution could be found by

treating as self-sustaining insurance funds, separate from and independent of the national budget, the several forms of social benefits drawn by citizens. The adoption of this principle would of course mean that those who receive the benefits or protection of social welfare would assume the costs and would in effect be buying insurance. This may indeed be the only way to impose the social sanctions necessary to put a stop to the admitted abuses of these funds.

In considering such a course we must of course recognize an obvious criticism: that it would impose a cost on those less well able to pay. But the question is not of benefiting the rich at the expense of the poor. There are few in Canada who are rich and if all their incomes were taken by tax it would not change the nature of the problem. But by finding relief for the national treasury in this way, the government budget could be freed for intelligent fiscal planning and management.

### The Root of the Problem

The root of the problem is simply that income earned from a job is much more important to the individual and to the nation than money received from welfare payments. If welfare payments to individuals can only be maintained through chronic national deficits or through an increase in taxation which will place still further deterrents on enterprise, effort and investment, the consequences in the end are likely to be increasing numbers of people idle and receiving unemployment and other benefits from a treasury suffering chronic deficits and payable in a currency with lessening value.

What we must create is a condition under which the economy will grow, employment will increase and unemployment diminish in an environment of relative

stability in prices and in the value of the currency. In all these problems it is clear that the real question is to find the way to benefit the whole of the populace. The first thing to be learned is that there is no such thing as something for nothing.

### The Source of Economic Growth

These are some of the issues to be weighed in the national planning for a free society. To understand these issues we must recognize that economic growth is not generated through purchasing power put freely into the hands of the people by the government. Any seeming prosperity created in this way is transient and insecure and if carried far can lead to social turmoil and economic debility: of this there is evidence in the economic history of other nations. Permanent and secure growth comes from research and investment; the creation of new and improved products, new enterprises and new jobs. Only in this way can man's productivity be increased.

Productivity is clearly a function of investment; and investments can only be induced through the earnings they are expected to produce; in short, profits. This therefore involves a frank acceptance of the creative role both of individual enterprise and of profits and of the need for accumulation and for investment of capital. Without increasing profits, a growing stock of capital, and increasing investment, neither gross production nor productivity per capita can grow. This condition requires a taxation system on incomes and estates designed to induce both the maximum of human effort and inventiveness and the maximum risk of capital.

### Borrowed Time Nearing an End

Our problems have been building up not just over recent years but over many past years of high spending and high consumption financed in part not only by internal debt but also by foreign

capital. It has been clear for a long time that this could not go on indefinitely. We have now reached the end of the easy road. The pressing problems we face and their threatening consequences are not at present visible to all in simple, tangible, understandable terms of day-to-day life.

But if we do not recognize these problems, face them courageously and discipline ourselves accordingly with the knowledge and approval of an informed public, the course of events before long will bring home to us penalties which will be clear to see and painful to experience. Not only may our money and savings lose value and lessening effort prevail; our economic system may deteriorate in effectiveness and may get on dead center where we have neither the incentives to induce willing enterprise nor the compulsions to enforce unwilling effort. If this course should unfold, the problems we now face may pale before those which could arise.

### The Basic Principles for Intelligent Planning

Wherever the mind may turn the need for intelligent planning is clear. But if there is not to be a reversion to servitude, the planning will have to be based on the basic principles of freedom of the individual, a taxation system providing incentives to effort, fiscal policies to preserve confidence in the future value of currency, and an economic and political climate attractive to investment. Only in this way will our plans and our performance be worthy of our forbears; only by adherence to these principles shall we benefit by the full flowering of the creativeness of man.

\*An address by Mr. McKinnon before the 46th Annual Meeting of the Investment Dealers' Association of Canada, Murray Bay, Quebec, June 18, 1962.

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Continued from page 13

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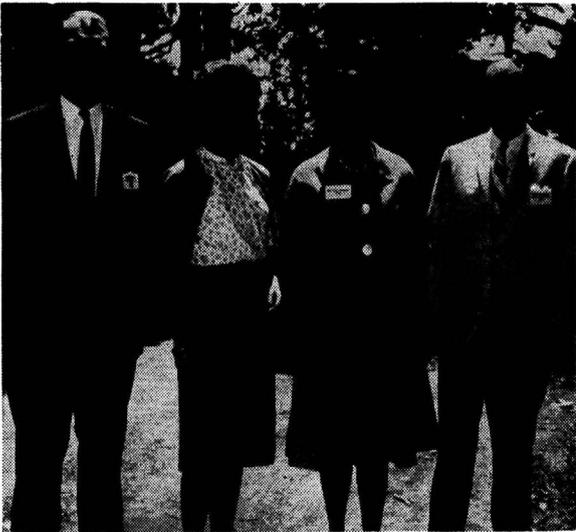
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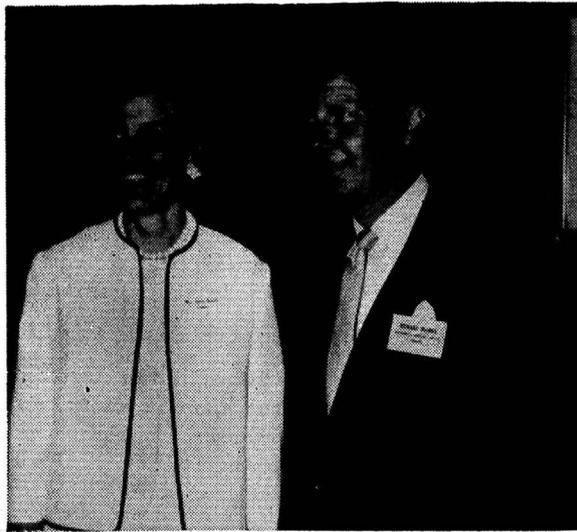
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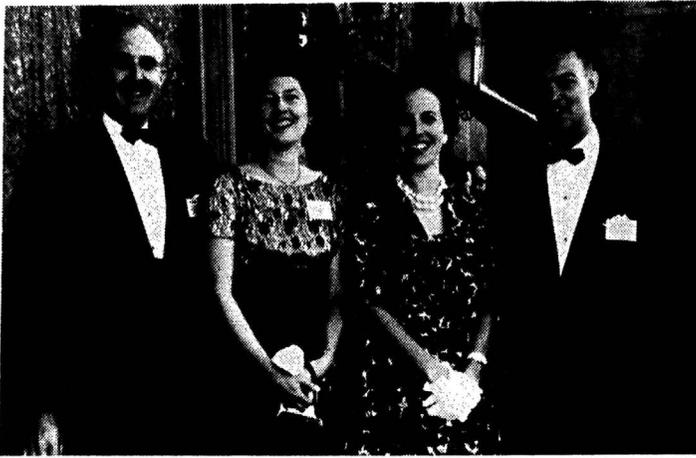
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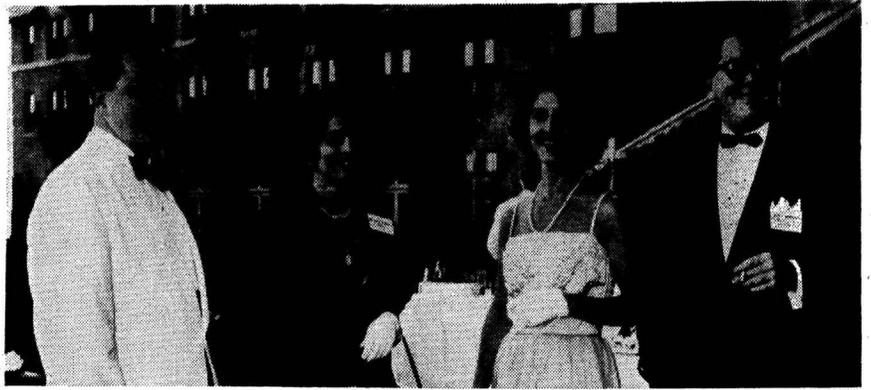
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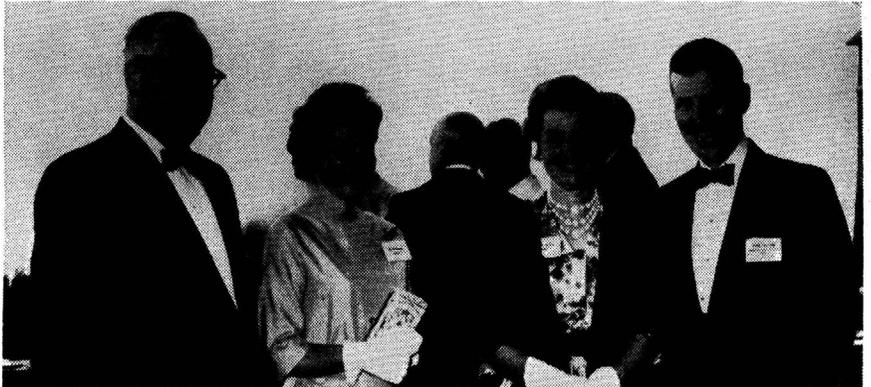
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