

# Industrial Development in Canada

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I welcome the opportunity provided by PUBLIC AFFAIRS to say something about Canadian industrial development. I regret only that this Special Issue could not have appeared before the death of Dr. L. Richter, founder and editor of the journal, who contributed so much to pioneering work in social studies in Canada. He served his adopted country well and will be greatly missed.

CANADIANS are both an industrious and an industrialized nation. Industriousness alone, however, did not make Canada the third among the industrialized and trading nations of the world and achieve for her people a standard of living second only to that of the United States. The high degree of industrialization achieved has been the result of many factors—the availability of a multitude of natural resources, both at home and in the adjoining United States, the skill and co-operation of the Canadian worker, the vision and organizing enterprise of management, the willingness and confidence of the North American financial community to invest in Canadian development, and our ability to borrow American technology and technical personnel to complement our own efforts. In less than three decades, the Canadian economy has changed its status from one mainly depending for its livelihood on primary industries—agriculture, fishing, mining and lumbering—to one deriving its main wealth from the processing of primary products and the manufacturing of a variety of capital and consumer goods that are prerequisite to and associated with the high standard of living of an advancing industrialized society.

## Rate of Industrial Expansion

A few figures will illustrate the relative gains made by industry in the Canadian economy. In 1919 agriculture was Canada's most important industry, contributing 44 per cent of the total net value of commodity production against 33 per cent for manufacturing. By 1939 this position was almost reversed, with manufacturing contributing 41 per cent as against 23 per cent for agriculture. When the war ended in 1945, manufacturing has increased its lead to 52 per cent while agriculture, in spite of very substantial contributions to feed millions of Canadians at home and allied nationals abroad, made up only 21 per cent of the net output. This trend is continuing in the post-war period.

During the years 1945 to 1948, \$1.6 billion was invested in plant and equipment for the manufacturing industries. This is more than we invested in the four years preceding World War II and the corresponding period of our last investment boom (1926-1929) taken together. Some of this increment, of course, was due to higher prices, but also in volume terms investment in the transition period exceeds any past accomplishments. In 1948 alone we are spending close to \$600 million, or \$46 for every man, woman and child in this country, in expanding our manufacturing facilities. Our gross national product in 1948 will exceed \$15 billion, of which some 4 per cent is going into investment for manufacturing. The United States, the most industrialized country in the world, is spending some \$8 billion on capital goods for its manufacturing industry this year, or a little better than 3 per cent of its anticipated gross national product of around \$250 billion.

The Canadian process of industrialization is proceeding at a rate that is hardly matched by any other country in the world. As a result of this expansionist process and other favourable conditions, our manufacturing industry has been able to more than treble its output in dollar terms and about double it in real terms in the short space of ten years.

### **Increased Responsibility at Home and Abroad**

That we are able to achieve such a rapid expansion while still maintaining a standard of living in real terms which on the average is some 50 per cent higher than before the war, and at the same time contributing significantly to European reconstruction through large shipments abroad of food, base metals, lumber and capital goods, makes one proud of being a Canadian. It makes us aware of the tremendous potentialities of industriousness and industrialization, and of the responsibility in our good fortune not to forget those who are less well-off whether at home or abroad. This awareness is reflected in our domestic and foreign policies.

With strong inflationary pressures inherent in the Canadian economy, we have endeavoured to make Canada's adjustment to world price levels—which at the end of the war were substantially higher than the Canadian level—a gradual one. We tried to spread this adjustment over as long a period as was practical in an economy where a maximum of private freedom is preserved and government direction of business is kept to a minimum. These policies were designed to avoid the disruption of Canadian industry and to minimize the hardships to the Canadian consumer as much as possible.

In spite of the fact that international trading was greatly disturbed as a result of the war, we succeeded in getting for Canadian industry a large volume of raw

materials and capital goods which was required to keep our plants operating efficiently at or near capacity. For the consumer we were able to maintain a flow of commodities, both utility goods and luxuries which make up our present high standard of living—a standard to which Canadians have become accustomed and are all too ready to take for granted.

In the foreign field we had to cope with a very difficult situation. The nations of the world are seething with unrest and uncertainty. They are divided into rival camps, jockeying for political position, and struggling for national and regional security. War-devastated countries are striving for economic recovery, and other nations for economic development. Our foreign policy, which has an important effect on our economic outlook, has stressed three important principles:

1. Co-operation with the other chief trading nations to remove obstacles to trade,
2. Help for economic recovery abroad, and
3. General support of the collective principle of security and peace.

The record of Canadian delegations at the United Nations conferences in New York and Paris, the trade conferences in Geneva and Havana, and the credit agreements with the United Kingdom, France, Holland, Belgium, Norway, Czechoslovakia, Russia and China, and the contributions to foreign relief are all part of a pattern that points to Canada's consciousness of her international responsibility as an industrialized and large trading nation.

### **Government's Attitude Towards Industrialization**

The Government's attitude towards further industrialization of the Canadian economy is governed, as stated unequivocally in the *White Paper on Em-*

*ployment and Income*, by "its adoption of a high and stable level of employment and income, and thereby higher standards of living, as a major aim of Government policy." In Canada, the initiative to industrial expansion rests largely with private individuals and private companies. In fact, industrialization means simply people starting new businesses or expanding existing ones. Through better mechanization or new processes they try to make more efficient or more advanced use of our natural resources. The Government's policy towards industrial development is clear cut.

In its relationship to the business community, the Government is making, as stated in the *White Paper on Employment and Income*, "every effort to create by all its policies favourable conditions within which the initiative, experience and resourcefulness of private business can contribute to the expansion of business and employment." The means whereby favourable conditions for business are created vary as economic conditions change. Only thus can economic policies meet the situation effectively. The course of Government policies towards business expansion in the first three post-war years serves to illustrate this point and is elaborated further below.

In its relationship towards the provinces the Federal Government recognizes that many important aspects of development of resources and of industrial development based on these resources are wholly or in part under provincial jurisdiction. Encouragement to projects of regional and local significance depends, therefore, to an important extent on regional and local initiative forthcoming in whatever form provincial and municipal governments consider most appropriate to meet the need. The Federal Government is concerned with the national and international aspects of industrial development as it affects the country as a whole. To cope with the

problems disclosed, a wide range of measures may be involved, from tariff formulation to exchange control, from allocation of scarce materials and supplies to import controls, from tax incentives to direct subsidies, from resource surveys to economic intelligence. Although there are a number of fields where the Federal Government and the provincial governments exercise their respective authority independently, there are many points of contact and mutual interest. To mention only a few: the better and more extensive use and conservation, on a national scale, of Canada's natural resources, the provision of expanded transportation facilities to keep pace with rapid industrial growth, the solution of special area and industry problems that transcend provincial boundaries, the encouragement of foreign industry to locate in Canada, and the expansion of tourist trade. In some of these matters Dominion-provincial co-operation is already yielding results; in others it awaits study and patient negotiations guided by the principle that prosperity in Canada is indivisible.

### **Industrial Expansion Policies in the Post-War Period**

Short as the space of time has been since the end of World War II, we have completed one distinct economic phase and have entered a second phase.

The first phase was the period from the fall of 1945 to the fall of 1947 and involved the physical reconversion of plant and equipment from war-time to peace-time uses, and the realignment and redistribution of the labour force, with the soldier exchanging a tank for a taxi and the munition worker a shell-filling job for work in a textile mill. The early phases of this first stage were characterized by the uncertainty of the economic outlook both at home and abroad, the need for sizeable adjustments on the part of industry to cope with the requirements of the Canadian econ-

omy at peace, and the necessity of finding ways and means of financing the supply of raw materials and capital goods which were urgently required by allied countries abroad in their reconstruction program. In this situation the Government's policies to encourage and facilitate the conversion, modernization and expansion of Canadian industry were developed along two lines:

1. Measures designed to speed up liquidation of war-time obligations and the war-created industrial structure through rapid cancellation and settlement of outstanding war contracts, speedy renegotiation of completed war contracts, disposal of Government-owned war materials, stores, plant and equipment in excess of peace-time needs, and the winding-up or reconstitution of Crown companies established during the war.

2. Direct fiscal incentives to encourage industrial expansion pending the revision of the over-all restrictive war-time tax structure to conform to the continuing peace-time needs for the maintenance of a high level of employment and income. Such fiscal aids included the privilege of writing back or carrying forward losses to allow business firms to approach more nearly an *average* profit basis for taxation purposes; the granting of a flat tax rate for the first year of operation of newly-established companies, thus exempting them in part from the full taxation load under the Excess Profits Tax Act; tax concessions to encourage exploration and drilling for oil and exploration and prospecting for base metals and strategic minerals; permission to write off current expenditures for research in the year of expenditure and capital expenditures over a three-year period; and provision for special depreciation on new investment in industrial plant and equipment of a type that would speed up the process of industrial adaptation in the transition period.

These specific policies were supplemented by broader policies dealing with

such matters as credits to our foreign customers in order to aid them in their recovery, and also to maintain Canadian markets for many of our primary products. To cope with war-engendered scarcities, materials in short supply were allocated where they were most needed. On the whole, however, controls were abolished wherever circumstances permitted. These policies and the determined effort of business and labour had the result that by the fall of 1947 the physical task of plant reconversion and the re-distribution of the working population was substantially accomplished, and Canada was experiencing an investment boom that promised to exceed—and has by now, in fact, exceeded—any investment boom previously experienced in this country.

While expansion at home was proceeding at a high rate, international, political and economic relations in which Canada as a world trading nation had an important stake became more difficult and improvements were slow in coming. When the war came to an end we, together with many other nations, hoped to achieve three things within a reasonable number of years:

1. Greater security and understanding among both the large and small countries of the world;
2. Freer exchange of men and goods, and
3. Speedy recovery of war-devastated countries to play their full part in the community of nations.

In the first two years, however, political relations between "East" and "West" deteriorated. Some promising improvements in the relations among the chief trading nations were achieved but the full effects of these could not be felt for some time because of shortages of raw materials, capital goods and manpower, and exchange difficulties facing most of the participating countries. Bad weather, political uncertainties, and social

unrest, added to the substantial physical destruction caused by the war, delayed European reconstruction. As a result, Canada, which has been aiding European reconstruction on a larger per capita basis than any other country, was faced with a serious exchange problem by the fall of 1947. This problem was accentuated by the high level of internal prosperity, which in part was supported by drawing on our reserves. Obviously this could not go on for long, and when we reached a low level in our exchange reserves we had arrived at the beginning of a second stage, a period of trade adjustment.

The problem faced in this second phase was a simple one, the solution a complex one. We were selling more to Europe and other non-dollar countries than we were buying, and we were buying more from the United States than we were selling to them. We attempted to find an answer to this problem by means of the Emergency Exchange Conservation Act which was passed by Parliament in the 1948 session. We were after two things: we want to import more from Europe and other non-dollar countries and export more to the United States. This would help us to balance our trade at a high rather than a low level. The Exchange Conservation Act divided the imported goods we have placed under control into three groups:

1. Those that we can do without (Schedule I),
2. Those that we can do with less of (Schedule II), and
3. Those we need (Schedule III) but which we must make sure are used to the best national advantage.

These commodities under Schedule III are broadly called "capital goods," and include machinery and equipment for direct use and materials and parts for assembly and servicing in Canada. In admitting these capital goods we were guided by a number of principles, of which the most important one was the

maintenance of essential facilities required for the efficient functioning of the national economy. Particular attention is given to investment plans which help us either to earn or save U. S. dollars. This part of our import policy, administered by the Department of Trade and Commerce, gives us an opportunity to encourage the further expansion of industry which we believe will be of great significance in Canada's future.

While less than a year has passed since we started administering Schedule III, we have made some worthwhile progress. The evidence so far available suggests that three opinions widely held about the ability of the Canadian manufacturing industry are as out-of-date as the horse and buggy which our grandfathers used. These three are:

1. That we could not produce this or that article and had to import it from the United States;
2. That we could not manufacture a lot of goods as efficiently as our neighbours to the south and sell these products to them on a competitive basis; and
3. That we could not sell certain manufactured goods to other countries if the United States was also in the market.

Canadian industry is producing today a large number of commodities or parts formerly imported from the United States. Goods completely produced in this country and formerly imported range from jet engines to tapered roller bearings, from vinyl sheeting to lace, from two-speed differentials to pyrex nursing bottles, from ethylene glycol to food extracts.

In other articles produced in this country we have been able to achieve a substantial reduction of the import content. One firm reduced the import content of a radio from \$17 to \$1.35, and another for refrigerators from \$70 to \$36.

As a result of efficient low cost production in Canada, we are now exporting to the United States, or in the process of doing so, articles which we formerly used to import. Such goods include noiseless typewriters, stainless steel equipment and hollow ware, acetylene black and baby carriages.

We are also exporting, or preparing to export, manufactured articles which many of our customers used to buy from the United States—for example, optical goods, electric heating elements, high carbon drill bits and automatic washing machines.

These developments are being made possible through a great deal of co-operation between American and Canadian business, and through the neighbourly understanding between the United States and Canadian governments. It is encouraging to find that Canadian business can compete in cost levels and performance with American business. This is the most hopeful sign that Canadian business will know how to maintain its position in the future. Since the beginning of 1948 we have been able to achieve a notable improvement in our balance of trade with the United States. There has also been an increase in imports from the United Kingdom and some decline of our exports to overseas countries. The joint effect of the change in our trading pattern has been a gain in over-all trade and a moderate improvement in our foreign balance position.

### **How Industrial Policies Are Formulated and Administered**

Industrial policies of national significance are formulated by the Cabinet as a whole. Because of the importance the Cabinet attaches to industrial development a special Cabinet Committee on Economic and Industrial Development was established in May, 1948, to succeed the Cabinet Committee on Reconstruction created in 1944. This new Cabinet

Committee advises the Government on the following:

1. Matters connected with the general economic and industrial outlook and development;
2. Appropriate measures to maintain a high level of employment and income in Canada as a whole or in any region; and
3. Public investment policy as related to public projects and resources development and conservation, including the preparation and utilization of a shelf of reserve projects and the use of a special projects vote.

The administration of industrial policies is in the hands of several government departments and agencies. A large part of the work is now being done by the Department of Trade and Commerce, which has taken over some of the functions of the Department of Reconstruction and Supply. In the earlier part of its existence, the Department of Trade and Commerce was primarily concerned with trade promotion. In recent years and especially of late it has become concerned with the broader problems of national and trade development, including in particular domestic industrial development and economic intelligence both domestic and foreign. In expanding the Department's duties, the Government has given recognition to the fact that secondary industry is one of the most important and rapidly growing segments of the Canadian economy and that a full-time department should be concerned with its problems, as has been the custom for many years in the fields of primary industries through the Departments of Agriculture, Fisheries, and Mines and Resources. In its work, the Department of Trade and Commerce has the assistance of other Government Departments, including the three just named. A number of agencies, boards and Crown companies are also concerned

with special industrial fields and problems. Among these are the Dominion Coal Board (which is concerned with the fuel industry), the Canadian Maritime Commission (shipping and shipbuilding), the Central Mortgage and Housing Corporation (housing and building material development), the National Research Council (industrial research), the Polymer Corporation (synthetic rubber), the Eldorado Mining and Refining (1944) Limited (the mining and refining of uranium), Canadian Arsenals Limited (development and production of military equipment and stores for the armed forces), and the Industrial Development Bank (the provision of credit facilities to small and medium-sized industries which cannot obtain financial assistance through traditional channels).

#### **Industrial Development Program**

The question has been put to me, "Has the Canadian Government a long-term industrial development program?" The answer is "Yes". Our program, though, may be less distinct and publicized than that of some other countries. We do not tie our program of industrialization to a particular period of time like some of the four or five year plans which have become so fashionable today. Our program is a continuing one because we consider further industrialization of the Canadian economy as one of the important factors contributing to a continuing high level of employment

and income, with which a rising standard of living for the Canadian people intimately associated. To this end we are devoting all the means at our disposal. In formulating our economic policies we are guided by the principles which are best suited to the Canadian environment and which will strengthen the democratic institutions of this country. There are four principles underlying our industrial development program:

1. Canada is a free enterprise economy and the initiative for industrial expansion rests with private individuals and firms.
2. The Government will endeavour, through its policies, to create a climate within which private initiative thrives and industrial expansion is encouraged.
3. The Government will take the initiative and do what it can to co-ordinate the efforts of governmental, business and other interested groups in achieving full and effective utilization of industrial expansion in the interests of all citizens in the country.
4. If industrial expansion and economic development is hampered by the lack of initiative, the Government, where the national interest demands, will take appropriate action.