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NOTES FOR USE BY THE
HONOURABLE JOHN P. ROBARTS
PRIME MINISTER OF ONTARIO
AT THE FEDERAL-PROVINCIAL CONFERENCE
OTTAWA, MONDAY, FEBRUARY 16th, 1970



1. We welcome an opportunity to participate in this discussion because we believe that if we are not to repeat the mistakes of the past, some sense of perspective concerning our current economic situation must be maintained. In 1957, Canada was in a position where, under the influence of very large increases in investment which had been occurring for several years and which were creating significant pressures in the economy, it was necessary to institute a very tight monetary and fiscal policy. Pulling too hard on the economic brake plunged Canada into a period of very slow economic growth, which lasted until 1961. We believe that for different reasons a similar situation exists to-day.

2. Our agenda topic is the current economic situation and in terms of that situation, we believe that the efforts of the monetary and fiscal authorities in the United States and Canada have finally been successful in bringing our respective economies under control. The problem of inflation cannot be discussed without considering whether or not the consequences of the policies currently being used to fight it will not result in slower economic growth and more unemployment than we should desire to see in this country. It is our belief that the war on inflation is not primarily a battle against the forces of real demand but is a battle against expectations on the part of the general public that price increases will continue in the future. For that reason, we would suggest that the use of more selective and anti-inflationary policies may help us prevent rising unemployment and severe curtailment of real economic growth, while achieving a significant measure of price restraint. The efforts of the Prices and Incomes Commission to secure voluntary

agreements from the public concerning the future course of prices and incomes are a step in the right direction. At the same time, governments at all levels should continue to exercise a program of expenditure restraint in order to bring the psychological war on inflation home to individual Canadians. In addition, selective consumer credit controls, on a temporary basis, may be warranted in certain instances. In our view, the use of more selective anti-inflationary policies represents the realization that the stifling of aggregate demand and growth through the excessive use of monetary and fiscal policy, must be a temporary phenomenon.

3. To date, the main thrust of public anti-inflationary policies in the United States and Canada has been aimed at directly reducing the rate of expansion in the output of goods and services in the economy through the use of monetary and fiscal policy. In assessing the results of these policies, the Governor of the Bank of Canada has observed that:

"....there can be no question that the pace of expansion (of the Canadian economy) has slowed markedly...." +

4. A similar situation is occurring in the United States. The U.S. economy has experienced a downturn in economic activity even though prices have continued to rise. Industrial output in the U.S. dropped 2.5 points in the fourth quarter of 1969 while GNP in constant dollar terms

+ Remarks of the Governor of the Bank of Canada to the Canadian Club of Montreal, February 2, 1970.

showed one of the few quarter-to-quarter declines encountered during the past decade. Mr. Paul W. McCracken, Chairman of the Council of Economic Advisors, suggested recently in Toronto that solutions to a number of major economic problems in the United States, including inflation, are now falling into place:

"...we are now beginning to make real progress in getting our overheated economy cooled off...." +

5. Ontario is concerned that the present desire on the part of all governments in Canada to bring inflation under control does not mask the very real dangers which confront us now in the choice of appropriate policies. The current economic situation in Canada is delicate.

6. Recent economic indicators in Canada tend to show that the process of real growth in the economy has been arrested and that we may even now be in a no-growth situation. Real output declined in the second and third quarters of 1969 and it is expected that the fourth quarter will show only a nominal increase owing to the catch-up from the effects of a large number of labour disputes earlier in the year. One should not be misled that this modest revival late in 1969 is indicative of the fact that Canada has already passed through a "mini" recession. Indeed, it is our belief that in 1970, real growth in Canada will be confined to the latter half of the year and may fall as low as 2.8 per cent. This slowdown in Canada's rate of real growth will be accompanied by large increases in unemployment across the nation. In a country as vast as Canada we must expect wide disparities in unemployment across the country. Our own estimates of the average level of unemployment for 1970 range between 5.5 per cent and 6 per cent for Canada and just over 4 per cent for Ontario. This trend toward higher

+ Speech to the Empire Club, Toronto, February 5, 1970.

unemployment, which began last year, must be viewed with serious concern. Even as we are discussing what to do in the future, we must not overlook these figures which indicate a definite contraction in the economy right now.

7. In Ontario, a distinct lowering of our economic prospects for 1970 has occurred since we last reported in December. Private and public investment, which will be one of the few relatively strong sectors of our economy in 1970, is turning soft and forecasted increases have already fallen from 17 per cent to about 12.6 per cent. Most of the investment declines appear to be occurring in non-residential construction and, to a lesser extent, in machinery and equipment. The outlook for residential construction in Ontario remains very pessimistic and real gains in this sector are not expected to match price increases. In 1967 and 1968, business investment was squeezed by the twin screws of economic uncertainties and the pressure of mounting public sector spending. In 1969, the business sector was faced with both extremely tight credit conditions and labour unrest and many investment decisions were deferred. As a result of slower economic growth, corporate profits are under severe pressure and may have declined by 1 per cent over 1969 and by as much as 15 per cent during the last quarter. With industrial production and productivity falling and unemployment rising, our economic outlook is not rosy.
8. While we must do all that is within our power to combat inflation, we still have to be careful of over-reacting. The real enemy may be unemployment, lost capacity, and foregone income.

From a 1969 growth rate of 9.4 per cent (of which better than 5 per cent was in real terms), Canada's economic horizon for 1970 appears to have fallen to a growth rate of 6.8 per cent overall and a real growth of 2.5 per cent. The same slowdown will also hit Ontario hard. Our estimate for 1970 indicates a real growth of 3.2 per cent and an overall growth of 7.2 per cent.

9. Should Canadians continue to bear the full burden of economically restrictive monetary and fiscal policies if those policies are no longer appropriate? In the United States and in Canada, there are strong suggestions that the war on inflation has been successful and what remains is the tidying up without the backsliding. In Canada, some indications of success can be found in government expenditure restraints, industry price roll-backs and the recent efforts of the Prices and Incomes Commission. The public now believes, and has come to expect, that governments are serious in their concern about inflation and in their willingness to combat it. In this respect, Ontario will continue to act in whatever capacity she can in order to assist in this endeavour. We should all be mindful of the fact that given the current economic situation, our attitudes must be tempered by economic realities and the fact that our policies must not operate to reduce our national capacity for real growth - both in the short and long run.

10. We would also be foolish in deluding ourselves that efforts in the United States and in Canada to combat inflation will result in immediate success - prices are still rising and will continue to rise throughout the course of 1970. This is a natural consequence of the inflationary momentum generated in this country and in the United States over the course of the last four years. What is important is recognition of the fact that in the United States and now in Canada, we have reached a turning point in our public policy.

11. All governments in Canada must now be prepared to open up a second and more vital front in joint federal-provincial economic policy-making. Just as the question of overkill in the war on inflation is crucially important now, so too, over the course of the next few months, will be the question of how to design our policies to enhance and promote the resumption of economic growth across this country and the realization of our full potential.

What we now require is a long-run strategy which will both deflate latent inflationary tendencies and at the same time restore balance in the economy. Growth in the private sector must be restored by deliberately restraining growth in the public sector and by emphasizing production and savings rather than consumption.

12. It should be the immediate task of this Conference to achieve two objectives relating to the current economic situation:

The first is to obtain an accurate assessment of the current economic situation and the problems which confront us.

The second is to determine the form and structure of the appropriate federal and provincial policy responses not only immediately but also over the long run.

13. An accurate and up-to-date assessment of the economic outlook for 1970 is critical in the determination of the priorities we shall follow and in the use of the policy instruments at our disposal. The economic forecast which we now require will deal with expected developments in the Canadian economy in 1970 - region by region. It must also include the anticipated growth of various sectors, changes in employment and an estimate of real growth versus inflation. We also need to know what the federal government contemplates in its use of fiscal and monetary policy in 1970.

14. In order to contribute to joint policy determination, the Province of Ontario is prepared to table its 1970 Canada and Ontario economic forecast for joint review with the federal government's 1970 forecast. We would also be prepared to have our officials discuss with their federal counterparts the main components of both forecasts, in order to bring back to this Conference the necessary information upon which we can base our policy alternatives.

15. In the design and determination of the appropriate economic stance to be taken in 1970, we need to know the exact nature of the problems which are being experienced across this country. We would also want to consider the available policy alternatives appropriate to the different conditions in various regions of Canada as well as the different weight and form these policies might take.

16. In this respect, we believe that the current reliance on monetary and fiscal restraint is not well suited to the needs and requirements of differing areas across Canada. For example, the impact of monetary and fiscal policy is weighing more heavily on some regions than on others. The Ontario economy is already experiencing a slowdown. Unemployment is rising both in our province and across the country. Given this situation, wrong-headed economic policies which give rise to additional unemployment and unused capacity in Ontario will not help to create jobs in Quebec or the Atlantic Provinces or solve the problems of regional economic imbalance.

17. In our view, there are a number of general and specific policy questions where we must reach some form of agreement in order to attach the proper degree of urgency to our policy priorities.

To the best of our ability we must answer the following questions:

- 1) To what extent should the federal government continue to use monetary and fiscal policies in combatting inflation given the constraints imposed by our current economic outlook?
- 2) How can each province use its own budget, as well as other economic powers, to meet both slow economic growth and the residue of past inflation pressures?
- 3) What selective or special policy packages are required to promote additional economic growth in certain areas of the country? Certainly the situation in eastern Quebec and the Atlantic Provinces is different from that of the Prairies or Ontario.
- 4) What special or selective policy packages are required to relieve particular bottlenecks? Restrictive monetary and fiscal policies combined with expenditure restraints on the part of the federal government will not, for example, solve a very critical housing problem in Ontario. Surely we have the ingenuity and the know-how to devise particular problems to relieve particular problems in particular areas -- wheat, transportation, housing or pollution are good for a start.
- 5) How can all governments in Canada best contribute to a reduction in inflationary expectations across Canada? Inflation in this country is not confined to a single area or region but is evident across the country. All governments together have a role to play in this respect.
- 6) Finally, what special social and economic policies can be erected now to alleviate the inflation hardship brought about for particularly vulnerable groups such as unorganized and unskilled labour, old age pensioners, annuitants and other fixed income recipients. Surely rising unemployment, as an offset to inflation, is insufficient and unjust as a policy answer both to the unemployed and to the helpless in the economic process.

Before closing, I would like to add a note to the discussion to-day which we may tend to forget in our concentration on the more technical financial, economic and legislative aspects of controlling inflation. This has to do with an almost revolutionary change in the attitudes of the people of Canada and for that matter in many other parts of the world. Attitudes, of course, change most dramatically in young people but what I want to say applies to a majority of our population, at least in Ontario. I am worried about taking too scientific an approach to what is in many respects a non-scientific problem. What we as politicians always have to be concerning ourselves with is what people really want. My philosophy of government tells me that while on many issues governments must lead public opinion, they must also be continually aware of what people are concerned about and what they expect from governments.

Young people to-day are not imbued with the attitudes that were drilled into many of us who were brought up during the depression. At that time thrift was almost the greatest of virtues in my society, borrowing was next thing to a sin and the thought of having to pay interest was almost beyond the pale. But, after all, at that time, people had to save. Many had come through the financial catastrophe of having the head of the family thrown out of work. Sickness, as well as unemployment, could be a financial catastrophe if no savings had been put aside.

To-day, there is much less need for people to save or to adopt the kind of attitudes that promote saving. Most people are fully covered for the risks of accident, sickness, unemployment and almost all will have a form of pension coming on retirement that will be adequate. With their personal worries about what may happen to-morrow largely taken care of, people can and will spend quickly and borrow with little thought for the interest rate they have to pay.

In recounting this change, I am not necessarily decrying it. The fact remains that it has occurred, and it has meant, I think, that there is less incentive to save, less concern about what is going to happen tomorrow, more concern with the here and now, and, above all, a willingness bordering on eagerness to go now, pay later and damn the consequences of the cost of doing it this way.

Moreover, our western society has witnessed a further revolution in the shift from a production-oriented economy to one in which the stress is on consumption and leisure. Have governments and business grasped these facts? Do we know where the attitudes resulting from them are leading us? Are we, in our search for solutions to contemporary economic and fiscal problems, in danger of being trapped in the framework of older attitudes and once more gearing ourselves up to fight the last war? Are we really concerning ourselves with what people want? Are we engaging in arguments between governments and in the process forgetting the interests of those who elected us to serve their interests?

These are certainly not all the questions nor even, I am aware, all the right ones. But they are among those which most concern me now, and I feel rather sure I am not alone in this regard. They most certainly have come to my mind in the course of my own preparations for this particular Conference. They do lead me, in concluding these observations, to make a few final points.

From time to time, we may deplore the apparent lack of concern of newer generations for the old virtues. However, I think most of us recognize that we must pay heed to the positive side of what younger people are saying and thinking. Their real concern, as I see it, is less with themselves and more with the problems of the apparent values of our society. Perhaps we should be the ones

to do more of the changing. Can we really justify the things we do with our resources and our environment? Can we continue to accept the coexistence of hunger and vast wheat surpluses, of poverty and wealth side by side, of vast sums spent on weapons of destruction? In this current context, can we deliberately accept a policy which suggests that the cold discipline of unemployment is needed to cut down price increases? Should we deliberately try to manipulate our economy so that it is not functioning at its full potential?

To me at least, what is so crucial to be gained from this meeting, from the meeting of the Prices and Incomes Commission last week, and from the continuing and stimulating debate about tax reform, is not so much in the way of formal agreements, but in the way of changes in our attitudes which I hope will emerge. It is these changes, in my opinion, which will lead to sounder public policies, policies which are closely attuned to the expressed and real interests and attitudes of Canadians. It is in this connection that we must demonstrate unequivocally that we are concerned first and foremost for people and their needs. Individuals, industries, and governments must all show that they are aware of the potential dangers to our economy and society of "consumeritis" run mad, of spending our wealth before we have created it. Above all, and I say this in the spirit not of a lecture but of sober contemplation, governments must prove to all our people -- young, middle-aged, and old -- that we have a humane and abiding concern about the effect of our actions on each and every individual, and that we are committed to using our resources to their maximum potential in improving the quality of life in our society. As government leaders, we have a duty to Canada to try to work out jointly a set of government expenditure priorities that will allow this country to achieve its potential without at the same time stoking the fires of inflation. The Province of Ontario, its government, its people, and all the instruments at its command, stands ready to act in concert with the other governments in Canada to achieve its objectives.