

not work, his sobering reply was: "It has to work because it is the last resort."

Because of the impact of severe inflation and lagging economic growth, millions of people in many countries face the prospect of a prolonged period of declining prosperity. Only recently the European Economic Community warned that the citizens of its member countries could expect their standard of living to be reduced over the next three years.

We in this country have the potential to maintain and even improve our standard of living during this same period. But we are only likely to realize this potential if we are able to exercise enough self-discipline to avoid trying to take out of the economy more than it is capable of producing. If we can reach mutual understanding about the claims of each group on the economy, then it will be possible not only to maintain and improve our standard of living, but also to bring about a steady decline in inflation. No one is being asked to accept a self-imposed hardship. What I am saying is that collectively we will be a lot better off, not worse off, if we co-operate together to moderate our demands on the economy.

...The Government has already taken a number of steps to strengthen the financial position of both individuals and companies as a means of helping to ease inflationary pressures on the economy. The personal income tax cuts announced in the November budget, together with indexation, will significantly raise the take-home pay of Canadian workers. For the married taxpayer with two dependent children earning \$10,000 these measures provide an increase in take-home pay of \$250. By the same token, the financial position of Canadian manufacturing and processing companies also has been substantially improved by the reduction in their taxes and rapid write-off of outlays on machinery and equipment, providing a strong incentive for the expansion of capital investment, output and employment.

Dangers of high wage demands

What we are confronted by is a structural change in our economy — and that of other countries — which compels us to absorb relatively substantial increases in the price of food and energy.

For a time, an increased proportion of family budgets must be earmarked for purchase of these essentials. There is no way we can escape that burden. The danger is that in trying to do so by pushing for excessive increases in wages, salaries and other incomes we will only provoke a still more vicious inflationary spiral and undermine our prospects for future growth and prosperity.

This is even more likely to be the outcome if the unrestrained pursuit of substantially increased wages and salaries results in widespread industrial strife. During the first ten months of last year, the number of man-days lost as a result of industrial disputes soared to a record 8,900,000. This extensive disruption to the economy must be a matter of concern to all Canadians, particularly considering the fact that over the past several years in this country time lost through industrial disputes in relation to employment has exceeded that of virtually every other industrial country.

If we can succeed in reaching some national understanding on goals for moderating the rise of costs and prices, we may hope not only to bring inflation under control, but also to reduce the industrial strife which impedes our economic expansion. And, as the C.D. Howe Research Institute pointed out in its *Policy Review and Outlook for 1975*, it is an expanding economy that in time will enable us to grow out of inflation by providing the increase in real purchasing power Canadian families need to meet the increased cost of food and energy.

As I indicated earlier, real growth of the Canadian economy in 1975 is likely to be somewhat below potential. The increased stimulus provided by the November budget will inject a growing economic thrust over the course of the year. I hope that the pursuit of similar expansionary policies by the United States and other major industrial nations will also help to bring about a revival of international economic growth during the course of this year and a resulting strengthening of our export sales abroad.

Even the temporary slowing of our economy, of course, remains a matter for concern, given its effect in bringing about increased unemployment. Over the whole of 1974, the rise in the number of new jobs created of 378,000, or

4.3 per cent, was second only to the record growth achieved in the previous year. But the labour force continued to grow at a pace that was also just short of last year's record, increasing by 383,000, or 4.1 per cent. While employment growth moderated in the last few months of 1974, the expansion of the labour force continues without let-up, resulting in the jump in the seasonally-adjusted December unemployment rate to just over 6 per cent.

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Domestic oil prices

I fully recognize that business is concerned about the uncertainties that continue to surround the future development of petroleum and mining resources. To a considerable extent these uncertainties have been inevitable, given the nature of our federation and the constantly changing outlook for prospective resource supplies and costs in the future.

The massive increase that took place in world oil prices last year compelled us to devise arrangements to shield the Canadian economy from the worst shocks of that development. It raised issues that related in a fundamental way to sharing of the benefits and burdens of Confederation. We were faced with the necessity of resolving crucial questions relating, among other things, to our system of equalization payments, the division of resource revenues between industry, the provinces and the Federal Government and — in the case of petroleum — the timing and extent of price increases that should be permitted for domestic supplies.

The equalization question has now been fairly satisfactorily resolved, subject to parliamentary approval. We are making progress toward resolution of the question of the division of revenues between industry and the two levels of government. In the November budget, I pulled back significantly from the proposals for resource taxation first put forward in the budget last May. Alberta has made some positive moves. British Columbia has proposed certain steps to strengthen the financial position of natural gas producers within its borders. We have long recognized the need to narrow the differential between the domestic and international price of petroleum to encourage both the development of new reserves and the conservation of existing stocks....