

the need for a much more sophisticated approach to government budgets, in terms of their effects upon the economy. We all - or nearly all - have come to recognize the need for competent and strong central banks, by which we are now so well served.

It is, I think, largely as a result of the culmination of such developments that we have been able to achieve in North America - and in Europe with some variations - the long period of economic expansion since early 1961. It has brought us to a level of production and prosperity the like of which has never been seen before. Certainly, we have our economic problems still - balance-of-payments problems, problems of unemployment arising from a lack of fit between our labour forces and the demands of our markets, problems of productivity for us in Canada in trying to keep up with the fast pace you set here in the States. But we are fortunate to be able to approach these persistent problems in the context of a high level of demand and production.

We face, however, two major problems which arise from the very success we have had in getting where we are. They are interrelated. The first is to prolong our prosperity - to make a successful transition from very rapid expansion to steady growth without bringing about a recession. This seems to us in Canada to require much more difficult judgements and more careful management of the total of expenditures than did the initiation and continuation of our expansion during the past half dozen years. In recent years, we have all been increasingly apprehensive that our abnormally long period of uninterrupted expansion would come to an abrupt end. Now we find the outlook for 1967, particularly in regard to business capital expenditures, very difficult to assess with confidence. Last spring, in Canada, we tried by budget measures, as well as by credit policy, to exercise a moderating influence on the rapid expansion of business investment without reversing it. Our efforts appear to have succeeded. We also restrained the expansion in consumer expenditure by reversing the income tax cut we had introduced in April 1965.

At present, in Canada, we are having to plan further fiscal action to counteract the effects of a number of decisions made to increase public expenditures, and to maintain an overall budget position appropriate to the economic situation.

Both you and we have federal systems which complicate our public finances and make it more difficult to obtain a correct and timely overall fiscal policy. In Canada, these federal-provincial considerations are highly important and highly controversial. Our provinces and municipalities are responsible for many of the functions of government - education, health, highways, urban development, for example - which require rapidly-increasing expenditures to keep up with our rapidly-growing population and labour force. Naturally, they find the Federal Government, which has its own responsibilities, a serious competitor for revenues. We meet frequently with provincial representatives to discuss these issues in order to co-ordinate our fiscal policies and actions. We are making progress. We have recently, for example, worked out much-improved arrangements for the Federal Government to equalize and stabilize the revenues of the provincial governments, which will further enable them to meet their responsibilities and