

fiscal year which ends next March 31 will be much less than the \$455 million originally forecast. It will probably turn out to be somewhere between \$150 and \$200 million. This would be the best showing since the year ending March 31, 1958.

An accounting deficit at this level would be less than the amount by which the government contribution and interest credits to its employee-pension funds exceeds the benefits paid from such funds during the year. It is proper to record these charges as part of our current operating expenses during the year, because funds will be required in future to cover the pension liabilities now being incurred. But these charges are not cash outlays that have to be made this year, and we should only wish to increase our taxes to cover them under circumstances where we felt the state of the economy could withstand and justify the deflationary effects of such action.

This is just one example of why it is necessary to look behind and beyond the state of the public accounts to discern the influence of government transactions in terms of the national economic accounts. These accounts are prepared by the Bureau of Statistics and show gross national product, national income and the expenditures made by consumers, businesses and governments....

With the increase in revenues we have experienced this year, it is evident that there will be a substantial surplus in the Federal Government transactions as measured by the national economic accounts method. This will be the first time there has been a surplus according to this basis of accounting since the year ending 31 March, 1957.

**BUDGET UNDER CONTROL**

The facts and figures which I have cited, applicable to a year in which we still have more unemployment than we should have and in which we have an excessive margin of economic potential over our economic performance, show convincingly that our tax system now is strong enough to balance our budget and, indeed, to produce a surplus under conditions of full employment. They show that we have achieved our objective of moving in the direction of a balanced budget under conditions of high levels of employment. They demonstrate that the Government and Parliament, despite our manifold difficulties, have brought the budget under control.

The issue now is how the budget should be used in dealing with our fiscal and our economic problems in the coming year. In raising this question, I should point out that it is no more defensible to balance the budget in periods of inadequate growth and substantial unemployment than it would be to incur large deficits when the economy was operating at capacity. The question is what sort of economic conditions are likely to confront us in the year ahead....

First of all, there is a natural caution which manifests itself in any estimates about the future. At this time last year, for example, according to the conventional wisdom, a growth rate of 4 to 5 per cent was predicted for 1964. Even as late as mid-March, my official budget estimate was for an increase in the GNP of 5½ per cent. The result will be something of the order of 8 per cent, or nearly half as much again.

Now the conventional wisdom has it that the long upswing in production and employment that has been going on since early 1961 should continue well into 1965 and, it is hoped, throughout the year.

Preliminary forecasts of new capital investment by business are encouraging. On the other hand, in the absence of abnormal wheat sales to Russia and in the light of the difficulties facing Britain, we cannot expect a further growth in exports of the magnitude achieved in 1964. Indeed, with the growth in the economy generally that we can expect, we must anticipate an increase in imports and, as a natural consequence, probably some increase in the deficit on our balance of payments on current account.

However, we must also be conscious of the continuing rapid growth in Canada's labour force - of the large numbers of young Canadians coming to the age when they should, indeed when they must, have jobs. It is *their* duty, with the help of public and other educational authorities, to fit themselves for the kind of jobs that can be expected in the world of today and tomorrow, rather than the world of yesterday. But it is *our* duty to manage the economy so that the jobs - good productive jobs - will be there for them.

This means we must do everything we possibly can do to ensure a rapid and a sustained rate of growth of the Canadian economy this year and in the years that follow. This will call for expansionary policies - the continuation and enlargement of some present policies and the introduction of some new ones....