exchange rate difficulties and if a reasonable increase in our standard of living is to be achieved. This is a fact of life in Canada. It would be the height of folly to ignore it. Having said that, I should add that nevertheless there has been considerable public discussion of, and public concern about, the increasing extent of foreign control of Canadian industry. Writing about Canadian-American relations in the Washington *Post* of May 16 this year, Walter Lippmann had this to say:

> I have an impression from talking to certain Americans with interests in Canada that they are beginning to realize how undesirable and potentially dangerous is the excessive United States control of Canadian industry. I hope nobody will fly off the handle at that remark. But the fact that more than half the capital of Canadian industry is controlled in the United States is a perpetual irritant.
>
> The solution of the problem is not one for legislation or treaty but for voluntary action by the United States interests in co-operation with their Canadian associates. Canada is the kind of country in which this kind of problem can be handled unexcitedly in a spirit of mutually enlightened self-interest.

In these circumstances it may be useful for me to outline the views of this government as to how harmonious relations with foreign investors here can best be preserved.

We believe that industry in Canada, wherever it is controlled, should operate with due regard to the over-all interest of Canadians and the Canadian economy. This means that Canadian raw materials should be processed to the greatest possible extent in Canada, in order to provide employment to Canadians and contribute to prosperity in this country. It means that export markets should be sought actively wherever they may be found, and should not be limited out of regard for the interests of parent or associated companies abroad. It means that industry here should make a conscious effort to purchase its raw materials, components and supplies from Canadian sources whenever these sources are competitive.

It means that industry should employ Canadian service firms wherever possible. I am thinking of Canadian engineers, architects and other professional people, Canadian insurance and advertising firms, and Canadian consultants of all types.

It means that industry should exert itself to expand in Canada all the industrial functions which can efficiently be carried on here; and I am thinking particularly of increased basic industrial research and design. It means that industry should seek to provide the fullest opportunity for Canadian employees at all levels, including managerial, scientific and technical personnel.

Above all, I am convinced that a growing partnership between Canadians and investors abroad is the best way of strengthening the harmonious relations with foreign capital which it is our object to preserve. Foreign investors can further the growth of this partnership by selling minority interests in their enterprises to Canadians; and by electing a number of independent Canadian directors to represent these interests.

I suggest that a 25 per cent equity interest is in most cases appropriate to ensure that a Canadian point of view is always available when company policy decisions are arrived at. A smaller percentage would probably not be sufficient for this purpose. A larger percentage would be neither necessary nor in many cases practicable. In fact even a 25 per cent interest in most new or existing enterprises is not something that could be realized overnight. It is an objective to be worked toward over a period of years, although I hope this period can be a relatively short one.

And now we come to the heart of the budget, which I suspect some hon. gentlemen may not like quite so well. The heart of the budget is the condition of our expenditures and revenues. We shall first review the balance for the year just closed. Then we shall look at the outlook for the current year, with some regard to the following year, on the basis of the present tax structure and tax rates.

First, then, there is the balance for the fiscal year that ended last March 31. I shall only indicate the main items; detailed figures, still preliminary and subject to change, are to be found in the budget papers.

My predecessor, in his revised budget appraisal delivered last October, forecast a deficit of $570 million. This forecast was optimistic. Revenues turned out to be $54 million lower than estimated, and expenditures $85 million higher. It now appears that the actual deficit for last year was $709 million, which together with the deficit of $43 million in the old age security fund makes a grand total of $752 million.

I should point out that this large deficit was incurred after taking credit for some $75 million of non-recurring revenue from tariff surcharges, the legality of which has been challenged. I shall have more to say about this later.

There are a number of other items that should be mentioned in any recapitulation of the financial situation inherited by the new government. These include the condition of the old age security fund and the unemployment insurance fund, the railway subsidies, and the deficiencies in the superannuation accounts.

The old age security fund, which was solvent on April 1, 1962, incurred a deficit of $43 million during the last fiscal year and was forced to borrow from the consolidated