

programmes have been growing faster than national output. The additional expenditures made directly by government or financed by government have been met in part by rising revenues, but also in part by increased borrowings. These added demands for funds, superimposed upon an inflation-conscious capital market, have contributed to unusually high interest rates, which in turn have accentuated the upward movement of costs.

The Federal Government is taking resolute action to meet this situation. The Minister of Finance has announced fiscal objectives which, in essence, will reduce substantially the growth of government demands upon the economy and, at the same time, relieve pressures in the financial market. These measures are a necessary first step toward better balance in the economy. Comparable restraint with respect to income returns must be exercised by all groups in the community if the disruptive forces threatening Canada's prosperity are to be contained. Canada's trade and economic prospects for 1968 -- and, indeed, our standard of living -- are inextricably linked with the success achieved in correcting these basic impediments to growth.

External-demand conditions are likely to show considerable improvement in the year ahead. The tempo of industrial activity in the United States, following the slow-down early in 1967, is already picking up momentum. The devaluation of the pound sterling will entail temporary dislocation in some markets but should result eventually in a strengthened economy in Britain and greater financial stability internationally. The expectation of renewed advance in the West German economy should give new momentum to Western Europe. The Japanese economy meanwhile continues its strong upward course.

Faster growth in the industrial nations should, in turn, strengthen world commodity markets, with consequent benefit to the food and basic-material producing areas of the world. Higher export returns in these areas, coupled with Canada's expanding aid programmes, will lead to new opportunities for trade with the developing countries.

Against this background of improving world demand in 1968, the implementation of the first phase of tariff reductions under the Kennedy Round trade agreements will further enhance export opportunities in the coming year.

Canada must look to these broadened market horizons for the stimulus needed to move the economy forward to new heights of achievement. To make the most of these new opportunities will require ingenuity, initiative and perseverance on the part of Canadian exporters, and appropriate restraint with respect to income demands on the part of all groups in the community. More than anything else, international competitiveness holds the key to this new storehouse of opportunity.

It is especially important, therefore, in seeking ways to foster growth, to avoid courses of action which impair our ability to compete in world markets. Too much stimulation of domestic demand, for example, would unduly divert our energies and resources from export pursuits and otherwise impede the necessary adaptation to a more open trading world. This is why it is so important for governments and individuals alike to restrain their demands upon the economy.

Canada now faces a unique opportunity to penetrate new markets and to expand our export base. The successful response to this challenge will