Mr. MacEachen: In framing my budget I shall be concerned to ensure that the rate of growth of government expenditures is tightly controlled.

An hon. Member: Oh, oh!

Mr. MacEachen: I shall be particularly concerned to ensure that government deficits and financial requirements diminish as economic growth resumes.

An hon. Member: Who is going to do it?

An hon. Member: You are blushing.

Mr. MacEachen: This will mean that major new expenditure programs, if any, will be financed from increased revenues or they will not proceed. In coming to a judgment as to the appropriate stance in 1980-81, I shall wish to take into account both the cyclical weakness of the economy and the critical need to ensure a diminishing of inflationary expectations. I will consider measures that will distribute the burdens of both unemployment and inflation more equitably. The budget will recognize that the well-being of Canadians, the creation of jobs, and the easing of inflationary pressures all depend critically upon a continuing and growing strength of private investment.

May I turn to a brief review of the international and domestic economic outlook.

The international environment which we are facing is a very troubled one indeed. Since December, 1978, we have seen oil prices more than double. This has been a shock to the world economy comparable in relative terms, and roughly twice as large in current dollar terms, as that which occurred in 1974. The ability of OPEC to raise prices was enhanced by a high level of demand in world markets as consuming countries built up their stocks and as the world economy moved into its fourth year of cyclical expansion.

Miss MacDonald: Blame the world.

Mr. MacEachen: Strength of demand also contributed to a sharp rise in primary commodity prices. On top of the inflationary impetus from oil and other commodities, there has been a slowdown in productivity growth. These developments led to a renewed acceleration of prices throughout the world, and this in turn has brought about a significant tightening in the stance of policy in most countries. The pace of monetary growth has been slowed down; interest rates have been run up to record levels, and restrictive fiscal policies have been adopted.

The United States, of course, has experienced a stronger cyclical expansion since 1975 than most other countries. The continued strength of the United States economy until recently has puzzled many observers who have been calling for a recession for quite some time. The surprising drop in the savings rate to 3 per cent has maintained the economy's cyclical momentum.

Inflation in the United States has recently taken a large further jump. The persistence of high levels of demand has been a major factor. High oil prices resulting from decontrol and imports, and the upward spiral of housing costs and mortgage rates have also played important roles. Inflation in the United States now appears to be at a higher peak than in previous high inflation years.

• (2030)

I might mention in passing that we Canadians have perhaps been too quick to take comfort from our relatively better inflation performance in recent months. A substantial part of the difference merely reflects the different treatment of mortgage interest rates in the two countries consumer price indices. The faster approach to world oil prices in the United States is also important. The fact is that the underlying rates of inflation in the two countries are not very different. Canada is certainly not in a position where it could afford to let its guard down against inflation.

To counter inflation, the United States government has taken a number of tough policy decisions. Fiscal policy has been tightened, and interest rates have been pushed up to rein in money supply growth. Credit controls have been imposed. It now appears that the recession is under way. Indeed, there would now appear to be some risk that the recession could be deeper than the American authorities would wish. This is, of course, leading to some easing in the demand for funds and thus interest rates. The hope is that it will have an early and substantial impact on the rate of inflation.

It is obvious that Canada is not immune or insulated from these worldwide forces. Slow output growth abroad will translate into weaker demand for our exports. International inflation has been reflected in higher prices for the goods and services we import.

Canadian consumers would have suffered even more from higher import prices if we had not allowed our interest rates to rise and thereby checked the decline in the exchange rate for our dollar. At the same time the Canadian economy has a number of important underlying strengths. Our competitive position has been improved by the substantial discount at which the Canadian dollar has been traded.

Our merchandise trade surplus increased last year to a record $4 billion, and our travel deficit has decreased. Strong business investment is providing us with more productive capacity which will enable us to take full advantage of the market opportunities open to us.

Another element of strength is our energy potential which is unique among industrial nations. We can benefit from the investment and jobs created in exploiting our country's energy resources. Also, our industry will have an advantage in competing on world markets because of its access to relatively low-cost sources of energy. However, in the immediate future we in Canada are going to feel the effects of slow world growth, rapid inflation, and high interest rates. The general view is that there will be little or no growth in Canada in 1980.

Mr. Stevens: Under the Liberals.