course of common sense is to remain flexible for dealing with changes in economic circumstances as they occur, rather than locking ourselves into the matrix of a five-year plan.

**Mr. Stevens:** You say that because you do not know where you are going.

**Mr. Macdonald (Rosedale):** Throughout 1976, fiscal policy and monetary policy have operated together with the anti-inflation program to reduce inflation and maintain growth of output and employment.

I would recognize that this is a difficult task which requires continuing surveillance and adjustments to be made in light of developments. It is also a task which cannot be accomplished quickly. The government has a responsibility for the future growth and stability cf the economy. I believe the basic policy of a carefully staged recovery which is being followed by Canada, along with the other countries of the industrial world, is in our long run interests.

**Mr. Stevens:** What carefully staged recovery?

**Mr. Macdonald (Rosedale):** It is designed to achieve continuing growth without a return to double digit inflation. We cannot adequately protect jobs or ensure the creation of new jobs for our growing labour force if our prices and costs are out of line. The control of inflation is essential to create more certain conditions for business planning and investment in the private sector where the majority of the new jobs must be created.

I believe 1976 has been an important year of consolidation, laying the foundation for non-inflationary expansion to reduce the level of unemployment. We have over the last three years outperformed our trading partners in terms of real output growth.

In 1974 real output grew in Canada 3.2 per cent. In the United States it fell 1.8 per cent. In 1975 real output grew 0.6 per cent in Canada. In the United States it fell 1.6 per cent. In 1976 real output in Canada was 8.6 per cent above the 1973 level, while in the United States it was 2.5 per cent higher. That is not a record of indifference to growth and employment. It is a record of a balanced effort to fight inflation and maintain growth. The government has recognized that the reduction of inflation and unemployment poses great difficulty because of a variety of structural factors which are more and more evident in modern industrial economies.

We have to look to improvement in the structure and operation of the labour market in Canada. Our unemployment problem reflects particular factors in the composition and skills of the labour force; it reflects the deep-seated structural problems of the less advantaged regions; it reflects the impact of income maintenance programs on the operation of the labour market; it reflects the expectations of Canadians for particular kinds of jobs and for rising real incomes; it reflects the problem of frictional unemployment and the continuing requirement for retraining and redeployment of labour.

In each of these areas the government, through the programs of the Departments of Manpower and Immigration and Regional Economic Expansion, continues to improve the prospects for job creation. Our commitment to these programs is beyond doubt. They are as advanced as anywhere in the world. The fact remains however that we have to earn our way in the world. If we want steady growth of employment in all parts of Canada we have to get our costs and prices right. In that sense there are no miracle cures. Let me say that I am confident we are on the right track. A substantial amount of important cost cutting has taken place, both in the public and the private sectors.

The growth of federal expenditure has, for example, been cut back and will be below the growth of GNP this fiscal year. In 1977-78 federal expenditure growth is anticipated to be around 7 per cent. Growth in federal manpower will be less than 1 per cent. In the private sector there has been a significant moderation of wage cost increases. This moderation was reflected in a lower increase in unit wage costs which was around 10 per cent in 1976 compared to about 14.5 per cent in 1975. I continue to be encouraged by the moderation in consumer prices. The rate of increase in non-food prices declined further in February to 8.2 per cent.

**Mr. Stevens:** How about over-all prices? What happened to them?

**Mr. Macdonald (Rosedale):** There has been important stimulus to consumer spending already injected through automatic indexing of personal taxation and direct transfers. I recognize that some further adjustments may be required to maintain the level of real growth in the 4 per cent to 5 per cent range and I will be addressing this question in the budget.

The motion refers to the balance of trade. As is the case with inflation and unemployment, this question cannot be treated in isolation. Our trade balance reflects a variety of factors, not the least of which is our competitive position as it interacts with the exchange rate of the Canadian dollar.

We have seen a very substantial turn around in our external trade position, and the trade account moved back into surplus during 1976. It is essential for the Canadian economy that a favourable trade balance be maintained to service our substantial external debt.

Canada as a growing economy continues to need substantial long term inflows of capital to support investment. While 1976 was a somewhat unusual year in terms of the heavy provincial, municipal, and corporate borrowing abroad, the fact remains that foreign lenders continue to express confidence in the Canadian economy and its ability to service that debt. I would note that the cost of servicing our debt in relation to GNP is at about the average level for the post war period.

The combination of reduced borrowing requirements and lower interest rates in Canada will ease the volume of external borrowing, and we are seeing the exchange rate adjustment take place which is consistent with that. The decline in the value of the dollar will in that sense provide further stimulus to