

#### SPENDING CUT-BACKS

It was indicated in July that revenue measures would have to be considered to meet the burden of the supplementary old-age pensions. I have reached the conclusion that when these pensions are enacted, it will be necessary to increase taxes or to introduce new taxes to meet our total requirements and to prevent the Government's own increasing expenditures from having inflationary effects.

When we have before us, perhaps in late October, the measures to authorize the increased revenues made necessary by the supplementary old-age pension plan, we shall be able to review our general fiscal position and consider what changes are desirable in the light of the economic and financial situation. Until that time I shall not endeavour to be more precise as to magnitudes or announce any decision as to the nature of the measures that would be most appropriate.

In order to keep future tax increases to a minimum, and still contain the inflationary pressures, the Government has decided that it must moderate the rate of increase in expenditures, deferring some programmes already planned, terminating others, and putting restrictions on still others. We are having a long and painful review of these expenditure programmes with this in mind. One of the decisions taken was to discontinue the winter house-building incentive programme, which now does not appear to us as necessary, since the same effects in regard to the volume of construction in the winter can be obtained through suitable control of the direct lending by the Central Mortgage and Housing Corporation. While the Government is strongly in favour of increasing grants for research as a basic long-term policy, we shall have to exercise more restraint in the rate of increase this year than we had hoped would be necessary. The scholarship programme, which it had been our original intention to introduce this year, will be deferred. I think the essential needs at present can be met from our student-loan programme on the one hand and the extensive provincial student-aid programmes on the other. The agreements with the provinces for support of certain forestry programmes expire next March, and we have decided they should not be renewed, as we feel the provinces are quite able to carry this on themselves. We are seeking to hold down the size of the defence budget despite the inescapable increases in pay and in the prices of what we have to buy. We shall continue to restrict our capital expenditures, although this will mean some slowing down in a number of desirable programmes and postponement of good projects.

#### MEDICARE POSTPONED

We have decided that we must defer the commencement of one major programme that is already before

House. Many of the provincial governments have indicated that they feel we are attributing too much urgency to the introduction of full medicare programmes right away, and they do not feel prepared to proceed to put such programmes into effect next summer as provided for in the bill before the House. We therefore propose to defer the effective date of the plan for a year, until July 1, 1968. The legislation will be proceeded with in the House as a high-priority item when we reassemble at the beginning of October. The Government has no intention of changing the substance of the bill other than its effective date.

Obviously, this decision on medicare was a difficult one for this Government to make because we have been, and remain, so strongly in favour of this major social reform. We feel, however, that the delay will help to meet the immediate financial problems of both the federal and provincial governments and contribute to the ultimate success of the programme.

The provinces and the municipalities have been increasing their expenditures as well as the Federal Government, including, of course, their very large expenditures on education. They face just as great demands as we do for increased services and facilities and they have been sharing with us the unpleasant necessity of increasing taxes. It is certainly desirable that we and the provincial governments should harmonize our policies in expenditures, as in fiscal policies generally, taking due account of priorities and economic circumstances. I shall, of course, be discussing these matters, and others, with provincial representatives in the Tax Structure Committee next week. The provinces have made it clear that they need and want more revenue and would like us to reduce our taxes so that they can increase theirs, as we have done for a number of years past. Our present economic situation and our foreseeable federal financial position do not permit such action on our part now. Discussions of our problems and policies, as well as the general fiscal and economic outlook, are necessary before we all make our plans for next year, to be submitted to Parliament and the legislatures, including the main fiscal arrangements between us for the five years commencing in 1967.

It is to our fiscal policy, therefore, that we must look for some further assistance in restraining during this boom period the excessive total demands upon the economy that are currently making possible and in part bringing about the increases in costs and prices that are causing concern to...very many Canadians. This is not an easy answer nor a very welcome one to those of us who must take action to cut back expenditures or increase taxes. Higher taxes are cold comfort to those troubled by higher prices, but they can help prevent prices going up more and more. I can assure the House that, if higher taxes are necessary, they will be proposed with a careful concern for ability to pay....

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