

*Supply—Finance*

I also want to announce that the government has decided to impose a freeze forthwith on the total numbers employed in the public service as a whole.

In an ideal economy where everything worked out according to the basic theory of the price system and the movement of resources, where everything was competitive, where we did not suffer from external influences or internal imperfections, we would be able to pursue the objective of full employment and of maximum economic growth without serious hindrance. But the world is not an ideal place; Canada does not have a perfect economy. We face limits upon our freedom of action. These limits must be taken into account just as much as the ideals toward which we all would strive in the pursuit of full employment, prosperity and social equity.

The chief limit which confronts us now and about which we have learned much in the last several years is that of the inflationary tendencies that develop as we approach toward full employment. We have found that at a level of unemployment of 3½ per cent in 1965 and 1966 our prices began to increase sharply. Our costs increased much more rapidly than did those of competing economies. Even when the level of employment dropped off a little and the pressure of demand upon our markets was less intense, we have found that the momentum of wage increases, of other cost increases, of price increases, has kept up. That is now the chief constraint upon our policy.

Nor is our problem simply the actual price increases taking place now. What is most disturbing is the growing tendency to expect that prices will continue rising year after year in the future. It is this amongst other factors which is causing workers to seek such high wage settlements. It is this which is causing investors in this country and elsewhere to seek such high interest rates. It is this which is causing despair among the old and others with fixed incomes, especially those who are living on the savings they have made over many years. It is this which is creating uncertainty in the minds of those whose productive investment must give us more and better jobs in the future. It is this expectation of steadily and continuously rising prices, most fundamentally, which is the concern of those who must choose between investments in Canada and investments elsewhere. Therefore, Mr. Chairman, the government feels it must ask parliament now to

adopt further financial measures of an anti-inflationary character.

The country needs a clear demonstration that parliament is willing to take a determined stand against inflation even when such a stand requires that temporarily other objectives must be given second place. If we here are not willing to take the action that our great responsibilities require us to take, what can we expect of others?

We must give priority in our fiscal policy to resisting inflation. We must also plan, in consultation with business, with labour, and with all those whose decisions are important in determining prices, a means of greater understanding of the mutual danger of excessive increases in prices and in wages and other costs by which those in positions of strength can exploit their market power under present circumstances.

We cannot accomplish this direct influence upon prices and wages by imposing a system of controls upon our economy. We do not have the legal jurisdiction here in parliament to do it nor could we expect under peacetime conditions to solve the multitude of detailed problems that would require solution in exercising a rigid program of this kind. We are essentially a market economy exposed to the markets of the world. By and large, over the decades we have prospered by reason of this open economy. We have developed and expanded faster than almost any other country in the past 30 years. It would be retrograde and unnecessary to abandon all the advantages we derive from operating as a market economy, including not only the markets for goods and services but the markets for labour and for capital. On the other hand, we have to reconcile our over-all economic policies and to achieve our basic economic goals, within the framework of free markets.

Instead of legal controls we must use whatever powers of persuasion and influence we can muster in order to bring about pricing decisions and wage settlements that take into account the overwhelming public interest in price stability. Our purpose and program, which will, as I have said, revolve about the establishment of a board of review, will be to get price stability with a higher current level of employment than we could have if we relied only on fiscal and monetary measures to achieve our ends.

I have been glad to hear and see what the Leader of the Opposition has said on this subject within the last few days and I had the opportunity today of seeing something that