and that the purchase of long-term bonds and mortgages exposes one to a risk of continued erosion of the real value of his investment which must be offset by current rates of interest far higher than what we have known before.

I am sure that this sounds familiar to many of you, and that your own experience in the past 18 months has illustrated the dangers of an inflationary psychology taking hold both of the labour and capital markets.

Confronted with this situation, the Canadian Government has reached the conclusion that more restraint through fiscal policy is now required. I therefore announced on Friday last that the Government had decided to introduce new fiscal measures later this month, including temporary tax increases. These tax measures will be part of an integrated programme to check the inflation of prices and costs now occurring in Canada.

Another aspect of our fiscal and economic problem in Canada has been the rate of increase of government spending. This has reflected the growth and development of our economy, the increasing role of the state in modern life, particularly in education, and also a zeal for social reform that has been widespread in Canadian society and which I share. This expenditure has been for purposes that are sensible and worthy. The rate of increase, however, has been substantial and has resulted in public expenditures taking a larger proportion of our gross national product. Consequently, taxes have had to be increased both at the federal level and at the provincial and local levels. Governments have also been making increased demands upon the capital market at a time when business demands on the market have also been high. In the case of the Government of Canada, these borrowing demands have also reflected the requirements for funds to finance housing, farm credit and other commercial-type investments through government agencies. Our Government has recently become a financial intermediary on a large scale. The amount we are lending for housing and farm credit alone in this fiscal year is expected to be more than half the total of the Government's net cash requirements.

Early this fall, the Government reached the conclusion that this rapid rise in government spending and lending, and in government borrowing, must be firmly restrained if we are to secure adequate restraint across the economy as a whole and check the inflationary rises in prices and costs. We cannot expect others to exercise the restraint in their demands that is necessary unless the Government gives a firm and clear lead. We do not control our provincial governments -- any more than Washington controls your states -- but we wish to give them a lead in this general direction.

After considerable soul-searching, our Government decided that it can and will reduce very substantially the rate of increase in its expenditures -- despite the higher wages and prices we face, despite the higher interest rates we are paying, despite the growth in the population we serve. We are going to reduce our lending through government agencies to levels lower than this year. We shall limit the increase in our expenditures next fiscal year to 4 1/2 per cent over this year compared to increases of more than 10 per cent in the past two years. This is going to be painful -- particularly at a time of moderately