terms of budgetary policy. As I say, our objective is to reduce substantially the budget deficit in the coming fiscal year. From both a financial and an economic point of view I believe this will be necessary next year unless there is a major change in the economic prospects for that year. We will aim to produce at least a balance in the federal government's revenues and expenditures in terms of our national economic accounts. Such action is necessary to exercise the fiscal restraint on the economy required to check the inflationary price and cost increases now taking place.

I doubt, however, that even the most determined action on the part of the federal government will be sufficient in itself to arrest the kinds of inflationary price and cost increases that are now taking place. I am confident that we shall be able to secure the co-operation of the provincial governments in a similar effort through the consultations that we have with them. I wish to remind the house that the scale of spending and the scale of borrowing of provincial and municipal governments has exceeded that of the federal government this year, and even more so in the past year. When we in the government and parliament of Canada have taken the fiscal actions that we should take, then I believe they should be supported by a determined campaign to achieve by voluntary action a large reduction in the rate at which prices and costs are increasing, including wage settlements. I know this will be extremely difficult in an economy like ours which is so exposed to external influences. In the meantime I would hope that both industrial and labour groups will be considering and discussing among themselves and discussing with governments how best such a campaign might be organized to preserve Canada's competitive position in the world.

We must of necessity restrain our demands on the capital market. It is essential that we hold our government borrowing requirements next year, apart from what may be needed from time to time for exchange purposes, to a total less than we are borrowing in this fiscal year. To accomplish this objective it will be necessary to reduce some of our lending operations such as those for housing loans of a type that could be financed in the market. Our specific plans in this respect will be worked out in the capital budgets of the various agencies involved. Our objective is clear and I am confident that it will be attained.

At present the proper course remains to proceed with the tax measures I placed before the house in June. The removal of the sales tax on production machinery and equipment is an important measure to help achieve lower costs of production, and investment in such machinery and equipment is in fact a high priority objective. The removal of the sales tax on drugs does not involve a major loss of revenue and is part of a concerted plan to bring down the cost of drugs in Canada. It should go ahead now.

I wish to turn now to the Kennedy round, Mr. Speaker. The house will recall that I did not have an opportunity in the debate, nor when this question was debated, to put forward the comments of the Minister of Finance.

First, as to the tariff reductions perhaps I might begin by giving an indication of the scope of these reductions. Canada undertook to offer concessions in the Kennedy round equivalent in terms of their impact on trade to those offered to Canada by other participants. The tariff concessions made by Canada cover about $2.5 billion worth of imports, of which almost $2 billion come from the United States. On these imports we cut the average incidence of our tariff by about 25 per cent. The reductions will be found in virtually every sector of the Canadian tariff. In a negotiation of this scope it was necessary, and in my view desirable that we should examine and consider reductions in virtually every item, just as our trading partners were considering reducing each one of their tariffs.

Apart from a few industries such as textiles and footwear, rates of duty higher than 20 per cent ad valorem will now be exceptional. Producers enjoying such rates of protection should realize that they are being left in a specially protected position. This was done because it was evident either that greater reductions would create intolerable problems of import competition and unfair burdens of adjustment or that other countries were not offering meaningful tariff reductions on these products.

• (4:00 p.m.)

Rates of duty on final manufactures will generally be about 17½ per cent to 20 per cent, as compared with the 22½ per cent to 25 per cent rates now in effect. Duties on production machinery and other producers' equipment will generally be 15 per cent and there will be a new procedure established for relieving Canadians of duty on such machinery not available from Canadian sources. For intermediate products, rates will range