the quickening of the U.S. economy this year has had a noticeable effect on our trade and the level of the total demand on the Canadian economy. We have to do our share to restrain the widespread inflationary forces now at work in most of the Western industrial nations.

It is evident from what I have said that we cannot solve the problem of inflationary pressures now by government control or by establishing now some specific guide-posts to be observed in making price changes and wage settlements. Over the longer term, we may be able to develop a persuasive type of incomes policy that takes properly into account the particulars of individual cases, but that requires a lot more work and a much greater consensus of view than we have yet developed in Parliament, in business or in labour circles. In the meantime the Government can and will try to do what it can to moderate the general rate of increase in costs and prices by persuasion and by example of dealing with its own operations. The Seaway increase of 30 per cent over two years and the railway increase of 18 per cent are not to be regarded as examples for this purpose.

MONETARY AND FISCAL POLICY

Apart from what can be done by example and persuasion, the chief instruments now available to us are those which influence total demands on the economy – monetary and fiscal policy. We have used these in the past year to restrain total demand. The expansion of the money supply and bank credit has been held in check and interest rates have risen in response to insistent demands for credit. Budget measures have been brought in to increase tax revenues and induce the deferring of private expenditures. In the Budget we increased our federal personal income taxes by about 9.5 per cent on the average – largely reversing the reduction of the previous year, except in the lower incomes. We reduced capital-cost allowances temporarily – increasing our revenues from business and providing an incentive to defer capital expenditures. We imposed a temporary and refundable tax to force some postponement of business expenditure without adding significantly to cost. We gave advance notice of the reduction and removal of the sales tax on production machinery and equipment as a further inducement to defer capital spending.

We made clear it was the purpose of these measures to slow down the rate of increase of business and consumer expenditures, stretch out our prosperity and sustain our economic growth. These measures were clearly of the right kind. They have worked. They have been approved in Canada and elsewhere – for example, recently by the authoritative Federal Reserve Bank of New York, which commented that "Canada has clearly made a major effort to adapt general monetary and fiscal policy to the requirements of a strongly stimulated economy and has, in the process, broken new ground in the development of flexibility in fiscal policy".

IMPORTANCE OF SAVINGS

It is now evident, however, that the total effect of our monetary and fiscal measures has not been enough to keep the total increase in the demands on the economy down to the objective set in the Budget. I think the monetary policy of the Bank of Canada has been well conceived and skilfully applied, despite the very difficult circumstances with which it has had to cope. But I think that we in Canada, and other countries as well, have left too much to be done by monetary policy. This has resulted in conditions in the capital and money markets which are now so difficult and abnormal that they may impede the smooth and efficient flow of savings into productive investment. A larger flow of savings would help to meet the situation. Savings are a most important aspect of the fight against inflation. Canadians, either as individuals or through corporations, lay aside a good proportion of their earnings for future use. Our overall rate of savings compares well from year to year with other countries. In this present situation, an increase in corporate and individual rates of savings would serve both to moderate the level of demand and to reduce the pressure in capital markets. As one means of encouraging individuals to save, we shall shortly be offering a special centennial issue of Canada Savings Bonds.

It is clear we should strengthen our fiscal policy so that it can carry a greater share of the load of restraining the excessive growth in demand now taking place. Ordinary budget considerations lead to this conclusion as well as the present economic circumstances. In the Budget in March, after taking into account the tax changes then proposed, I anticipated budgetary revenues this year of $8,300 million, excluding the yield of the refundable tax. Our budgetary expenditures I forecast at $8,450 million. This left a budgetary deficit of $150 million. In terms of the national economic accounts, I forecast a surplus of some $615 million, including the refundable tax yield.

Our latest estimate for our revenues this fiscal year shows them at approximately the same level as forecast in the Budget. The yields of some items, such as corporation income tax, are down slightly below the forecast, while others are up enough to offset these.

On the expenditure side, it is harder to make a revised forecast at this stage until we know the timing of some of the changes that are under way. Parliament has not yet decided on what date the supplementary old-age pensions which were announced early in July will come into effect. As is now widely known, we shall have to face some increase in pay for the armed services and, I should add, in veterans' disability pensions and veterans' allowances. It is too early to forecast just what these will mean in this current year. I should think, however, it would be prudent to anticipate a total of $8,600 million in budgetary expenditures, quite apart from the supplementary old-age pensions. Consequently, we now anticipate a budgetary deficit of about $300 million and a corresponding reduction in the surplus on the national economic accounts basis.

The development in the economic situation since the time of the Budget indicates the need for a stronger fiscal policy, taking into account what I have said about the excessive reliance on monetary policy.

(Over)