My colleague, the minister responsible for housing, expects that starts will rise to 175,000 this year.

Since I reported to the house in November, as in many months before that, the increases in prices and costs in Canada have been excessive. The consumers' price index has continued to advance at a troublesome rate. In January it shows an increase over the level of a year before of 4½ per cent. The increase in the cost of services was particularly great during 1967—6.4 per cent. The increase in the costs of shelter, that is rents and other costs of housing, has also been high, partly for reasons that are familiar—increased real property taxes, high land costs and high interest rates—but perhaps as well because landlords in many places are in a strong bargaining position.

While some food prices increased sharply last month, on the whole food prices have risen more moderately than others in the past year. The same is true of the prices of durable goods. Naturally, and fortunately, the increases in price have been least in most of those types of commodities in which Canadian producers face international competition.

On the side of costs, the increases in wages have been putting pressure on prices. Wage settlements in Canada have continued in recent months at high rates which exceed substantially the settlements in the United States, even though the latter have been increasing as well.

There have been some encouraging signs in the last year of improving productivity in the non-agricultural sector of the economy, but the rate of improvement falls far short of what we impatient Canadians want and demand in the annual improvement of our standards of living and government services. As a consequence, increases in prices and in the incomes of those with stronger market power are putting serious and inequitable pressures on the real incomes and living standards of those with less market power. The expectation of continuing price increases is having serious disturbing effects upon both the capital market and the labour market. When account is taken of all the consequences of persistently rising prices, it is evident that they cannot go on rising year after year at the rates they increased last year without undermining the stability of our prosperity, our production and our employment.

It seems quite evident to me that our first priority in economic policy now must be to achieve greater stability in prices and costs.

[Mr. Sharp.]

• (3:30 p.m.)

The consequence of the expectation of continued increasing prices has been reflected in our capital markets, specifically the market for government and municipal bonds, and for mortgages. The high interest rates being asked by investors are partly a reflection of the high level of interest rates in the United States and in Europe where similar conditions prevail, and also of the heavy demands placed on the capital markets in the past year. They also reflect, however, a widespread expectation of price increases continuing over a long period not only in Canada but elsewhere, which makes investors concerned about tying up their funds for a long time unless they get high yields in compensation for them. One important reason we must stop these persistent inflationary trends is to make it possible for governments, municipalities and home owners to be able to borrow money for long terms at reasonable interest rates.

It is against the foregoing background that we must now consider our course of action. We consider it necessary to maintain the kind of strong fiscal position which Bill C-193 was intended to help create. The purpose of such a fiscal policy is to check the inflation that I have described by bringing our revenues into line with our expenditures. Nothing I propose goes any further than that. It is the most essential element in a program directed to that end. Until we have an adequate fiscal framework we cannot properly endeavour to supplement it with other measures.

The new tax proposals will provide nearly as much revenue as Bill C-193 would have produced—$390 million of budgetary revenues compared with $425 million of budgetary revenues. We would receive an additional amount of $50 million non-budgetary receipts in each case. We propose to make up the difference, and more, by a further reduction of $75 million in government expenditure for the next fiscal year.

Some hon. Members: Hear, hear.

Mr. Sharp: This can only be done by tough and somewhat arbitrary measures of a temporary character that are appropriate in an emergency like the present one. We propose to table a revised schedule of estimates reflecting these reductions for the approval of parliament, in place of the present main estimates.