

these are called for, must be paid for out of the Canadian dollar cash balances of the Government, so that an excessive inflow of foreign exchange can itself increase the cash demand on the federal Treasury.

However justified the demands for additional government programmes, we cannot simply ignore the overall effects of increased spending on the Canadian economy. In past years, we have devoted a substantial proportion of our resources to a progressive system of social programmes and we shall continue to do so. But we realize that social progress must be paid for. Even in a prosperous country like Canada, we have to ask ourselves at any given time how much we can afford. Faced with the rising costs of existing programmes and the limitations on our financial resources, what steps are we taking?

CUTTING COSTS

First of all we are taking a hard look at all existing programmes to find out if there are any which have served their purpose and should be discontinued. It is impossible to cut a government programme without hurting someone. In a democracy, all those who are adversely affected are entitled to voice their complaint in the public media and through members of Parliament. In other words, we realize that there is a political price to be paid in the short run for every economy we can achieve. We are confident that if the public is fully informed of our overall objectives, it will support the means necessary to achieve them....

IMPORTANCE OF PRIORITIES

Secondly, having examined our existing programmes, we have to set out priorities for the new services which changing economic and social conditions demand. Since it is not possible for us to finance all the programmes which would be socially or politically desirable, we must concentrate on those areas which are essential to our economic health. A satisfactory combination of government services can only be supported by a healthy and growing economy.

A top priority for public investment must be scientific and industrial research. In the past, the percentage of our national wealth which we have spent in this vital field has been very low in comparison to other industrialized countries. In the sixties, total federal expenditures on scientific activities has been increasing at a healthy rate. In the past four years, for example, it has doubled to about \$600 million annually. In the estimates for 1968-69 Federal Government support of scientific activities in universities has been raised from about \$75 million to over \$100 million. The Government will continue to expand and improve its performance in this area.

But even within this area we must be increasingly selective in the projects we support. Many scientists and engineers believe that we have not achieved a satisfactory balance in the distribution of our scientific effort between basic and applied science, that is between the generation of new knowledge and the practical application of existing information. At present, only 37 per cent of our overall science

effort is invested in development — much lower than the comparable figure for the United States. Similarly, the distribution of scientific activity between government departments and private industry appears to be out of line with our principal international competitors. Only 42 per cent is performed by industry, the lowest proportion amongst the nine leading European and North American countries. Our incentive and assistance programmes to stimulate research and development in Canadian industry are one method of correcting these imbalances....

STRETCHING THE TAX DOLLAR

Having carefully selected the projects and programmes which we must support, we have to make sure that we are making the most efficient use of the available facilities and personnel, that we are getting the maximum value for each tax dollar. In business, competition acts as a powerful external incentive to efficiency. In government we require both internal and external controls...For the past several months we have been making an overall assessment of Federal Government social security programmes from this point of view. We must make sure that recently-acquired knowledge is applied not only to the operations of the Federal Government but to those of other levels of government which we support. For example, recent studies have shown that a large proportion of patients occupying high-cost beds in our hospitals could be equally well cared for in low-cost convalescent homes if space were available...In another field, it has been suggested that the present division of the academic year in many universities and schools does not fully utilize available facilities. All those who contribute to the costs of hospitals, vocational schools and universities have an interest in ensuring that these institutions are efficiently operated.

To sum up, the severe limitations of our present financial circumstances require us to reassess our existing programmes in the light of present-day priorities, to concentrate our efforts in those areas which contribute most to the health of the economy, to exercise the utmost care in selecting specific projects and programmes within those areas, and to make the best use of available resources.

THE BRIGHT SIDE

Having spoken at some length about our immediate limitations, I want to comment on the prospects of our economy which are, in fact, very encouraging.

We are still very concerned about the inflationary pressures in the economy, although there are signs that the cost price spiral may be moderating slightly. The price increase measured over the GNP as a whole, which was about 4.5 per cent in 1966, declined to 3.9 per cent in 1967 and there are indications that 1968 will show further improvement.

Unemployment is certainly one of the vital elements in our judgments about the economic policies required for the immediate future. I have been pleased to note that there has been a modest easing of the unemployment rate in each of the last two months.