backed up by a battery of export controls. This would not only jeopardize markets we have built up at great effort over many years but it would invite retaliation through imposition of controls on imported goods we require. For Canada, so dependent on trade, to lead the world into this kind of protectionism would be the height of folly.

Mr. Speaker, this government has not reached for the bludgeon of deflation or for the illusory magic of controls. We have not played either draconian or cosmetic politics with the Canadian people.

In my view, what we have to do is this. First, we have to keep this economy rolling ahead and pouring out the goods and services our people need. Second, we have to reduce the strains reflected in particular market prices where this can be done in a practical way without harmful side effects. Third, we must help those Canadians least able to protect themselves from the hardships of inflation. My purpose tonight is to propose policies and measures which will round out and reinforce all three facets of this strategy.

Fiscal and Monetary Policy

The development of this strategy must be carried out within the framework of an over-all monetary and fiscal policy. Let me therefore explain here my views of the kind of framework we need.

The forecast I have given earlier tonight anticipates that demand in the economy will expand in line with our capacity to produce. In terms of the total demand required to keep the supply of goods flowing at capacity rates, we are on the right course now. We do not require additional stimulus. Neither do we need any severe contraction of demand. I agree with the Governor of the Bank of Canada that the rate of monetary expansion should now be moderated to the pace just sufficient to sustain continuing growth at the levels of our physical capacity. Rates of interest are painfully high, but the way to bring them down is to slow the rate of inflation. This will take time. Meanwhile, I expect the banks to continue to give preference in their lending to small businesses, mortgage finance for housing, and borrowers in the less favoured regions of the country.

On the fiscal side, what is required is that we hold our cash requirements, excluding foreign exchange, to much the same effective level as last year. Given our programs of government lending, this implies a reduction in the budgetary deficit and in the deficit computed on the national accounts basis. In the absence of new policy initiatives, my fiscal forecast indicates broadly this result. In choosing tonight's measures to extend our specific policy thrusts against inflation, I have therefore had to find additional revenues to pay for the costs of new initiatives.

REVENUE-RAISING MEASURES

I propose to find those revenues in ways that hurt least, and I propose to apply them to help people most in need. This must be done without damaging the over-all thrust of the government's budgetary policy. Clearly, additional revenues cannot be obtained without imposing a burden somewhere. I have selected measures which will give us the revenue required, but which will not in my judgment contribute to price increases on essential goods or impede the expansion of supply.

Petroleum and Mining Corporations

The major revenue-raising measures are in the field of corporation taxes. The most important of these relates to the taxation of the petroleum and mining industries.

In the tax reform of 1971 a new regime was established for the taxation of these industries. Since then there have been dramatic changes in the world and in Canada affecting the fortunes of these industries. For one, with respect to oil, I do not have to recall the phenomenal price increases and their potential for profit during the past year. The response of governments around the world has been to review their taxation policies and to strike a new balance appropriate to these changed circumstances. In mining, less dramatic but major price increases have occurred due to shortages and inflationary expectations. Here too, a re-examination of tax regimes is called for.

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In Canada our provinces have adjusted royalties, mining taxes and other arrangements to derive what they perceive to be a fair share for the benefit of their people. However, a provincial resource is also a national resource, and the federal government has a responsibility to see that a reasonable portion of this gain is shared by all Canadians. In these circumstances, the federal government has had to reassess its over-all taxation policy with respect to this key sector of the economy. In doing so, we have had the following objectives in mind.

First, it is essential that this sector bears a burden of tax on profits that is reasonable relative to the share borne by other sectors of the economy. Second, it is essential to ensure that all the people of Canada derive a fair share of the substantially increased revenues that flow from the higher value placed by the world on these resources. Third, the federal government should recognize the special position of the provinces with respect to the taxation and charges on resources within their boundaries. Fourth, the federal government must ensure that provincial royalties, provincial mining taxes and other arrangements having similar effects do not unreasonably erode the corporate income tax base. Finally, over-all Canadian tax policy must have regard for the position of these industries in terms of international competition and in terms of the financial resources they require to bring forward the supplies needed in the years ahead.

Taking all these considerations into account, I have the following proposals to make for a revised regime of taxation for these industries.

First, I am proposing that the basic rate of corporation tax applicable to production profits from minerals, oil, and gas be increased to 50 per cent. Because of the gradual reduction in the corporate rate under the tax reform schedule this will mean an increase of 2 percentage points of tax for the balance of 1974, 3 points in 1975 and 4 points in 1976 and thereafter. I believe that a 50 per cent rate of corporation tax for this type of income is appropriate to the new circumstances, rather than the 46 per cent rate which otherwise would have applied by 1976.