

But there would have been—and are—immense difficulties and disadvantages in such a course of action. Government would have to interfere in every type of business decision and wage settlement. To a far greater extent than in a voluntary program, a new bureaucratic apparatus would have to be set up. New types of inequity would be created. The flexibility of the market economy in directing resources where they are most needed would be impaired. Dislocations would occur.

These costs would be worth paying if direct controls could be successfully imposed. If this were the case, we might well achieve lower price and cost increases without higher unemployment. But the success of such a program would depend crucially on widespread public support. As I have said before, I believe that we can resort to direct controls only when there is a public conviction of the need for such action. That point has not been reached.

As another option, we looked at several alternative ways of using the tax system as a method of controlling prices and costs. We examined the possibility of taxing away all increases in income in excess of specified amounts. We came to the conclusion that this would provoke administrative nightmares, create massive inequities and yet would not ensure that the inflation of costs and prices would be effectively brought under control.

The policy I have chosen is to use our powers over taxation and spending to create the climate and set the example by which I believe we can still meet the inter-related problems which confront us. I would remind the House that the stimulus of the measures taken in the November budget was reflected in my forecast of cash requirements amounting to \$3 billion. Because of the slowdown in the economy, and its unavoidable impact on tax revenues and social security payments, I now expect that our requirements will be in excess of \$5 billion. I do not believe that this amount should be further increased. I believe there is enough stimulus already injected into the economy. There are, however, some areas in which further action is imperative. I will be announcing certain measures tonight to sustain business investment, to assist housing and to create jobs. But as I have said, our goals would not be served by a further net injection of demand. The government cannot underwrite—or appear to be underwriting—ever higher rates of inflation by further expansionary policies. It would be no service to the people of Canada to hide the underlying reality that unrestrained demands for higher incomes will sooner or later mean fewer jobs and lower living standards.

A further reason for not increasing the over-all expansionary thrust of our policies is that much of the slack in the economy is concentrated in our export industries. In spite of our best efforts to promote export sales, we cannot stimulate general demand in the economies of our trading partners. We can only try to check the deterioration in our international competitive position.

On the other hand, since unemployment is already too high, I do not see any justification for weakening the expansionary thrust which is already in place.

I have therefore decided to stay on our existing fiscal course in terms of our cash requirements and their impact on the economy. Within that framework, however, it is

The Budget

essential that the government should exercise greater restraint over its own spending. I will therefore be announcing a series of measures the government is taking to limit its total outlays and to reduce their growth over the longer run.

● (2040)

One thing we have learned from our meetings with labour and business was that if we expected restraint from the country, the country expected restraint from governments. We are determined that this budget shall show clear leadership in the exercise of moderation and restraint. We will thereby add force to our assertion that Canadians generally will have to moderate their individual claims against the economy if we are all to enjoy the benefits of a sustained expansion in output and employment.

[Translation]

The Control of Government Expenditure

I come now to specific measures. None is more important than the control of public expenditure. The outlays of the federal government, both budgetary and non-budgetary, have risen rapidly in recent years. So have the outlays of provincial governments. This rapid rise has occurred in response to insistent public needs and public demands. It has contributed to the achievement of the whole range of our objectives, economic, social, cultural and international. It has been mirrored in the experience of countries around the world. But the portion of the national income spent by governments on goods, services and transfer payments, and financed by taxation, has now risen to levels previously reached only during the Second World War. This rise is now causing concern in our inflationary environment. The competition for shares of the total national income has become intense. The government proposes to set an example of restraint in this regard by imposing strict control over its activities and programs.

Our budgetary expenditures and our loans, investments and advances this year are already coming under severe upward pressure, as a result of inflation, the growing cost of our statutory programs and the new programs and new commitments which have been pressed upon us from all sides. Unless we act now, the estimates I gave in my last budget will be exceeded by many hundreds of millions of dollars. Moreover, there are strong indications that the cost even of our existing programs will rise substantially further next year.

The government has therefore decided upon a wide-ranging set of measures, covering our statutory as well as our non-statutory programs, budgetary as well as non-budgetary spending, our salary as well as our hiring policies. All are directed to bringing outlays under more effective control and to slowing down their rate of growth this year and into the future. Our target of cuts this fiscal year is \$1 billion.

[English]

The first element in this strategy has been a careful scrutiny of all non-statutory programs authorized in the main estimates of expenditure or subsequently approved by the Cabinet for submission to Parliament. Under the leadership of the President of the Treasury Board, we have identified a series of items which, although desirable and important, must nonetheless be reduced or postponed.