ministers of finance attending the annual meeting of the International Monetary Fund. All of us agreed that never before had we been faced at one and the same time with easy money policies and high and rising interest rates. In the past we have associated high interest rates with tight money. Now, for the first time, we have high and rising interest rates associated with easy money.

In our own case, these high interest rates reflect the attitude of investors, on the one hand, and, on the other hand, the heavy demands in Canada for savings to finance housing, business investment and government requirements. They also necessarily reflect the high level of interest rates in the United States, where similar conditions prevail and from which country we must import hundreds of millions of dollars in borrowed capital. The relation between our interest rates and United States interest rates must be such as to attract into our country sufficient capital to make up the deficiency in our own savings.

The extraordinary condition of the capital markets is, I believe, influenced by three important factors. First, there is now unfortunately a widespread expectation of price increases continuing over a long period, which makes investors concerned about the real value of long-term bonds and leads them to demand higher yields in compensation. To remove this concern will require action that will dissipate this fear of inflation that overhangs the market. Second, there is an abnormal desire for liquidity, a preference by investors for holding highly liquid assets or short-term securities, and a desire by many businesses to have liquid assets so that they will be less dependent on borrowing in the future. Third, there appears to be a general expectation that the pace of economic expansion will quicken again before long and be reflected in continuing strong demands for capital....

All in all, we are making a successful transition from the high rate of expansion of the past year to the more sustainable rate of growth that is now beginning to emerge. This has really been quite a remarkable period. The situation has developed as it was forecast in the budget speech – namely, that we should move from a very, very rapid rate of expansion through a period of inventory adjustment and on to a more sustainable level. And I believe we are so moving.

It has been a really quite successful transition except for one thing, and that is that the rate of increase in costs and prices is still much too high. I feel that we must – and we shall – find some way to bring this inflationary movement under control – even if necessary, by letting the economy develop a little more slack for a year or two while price and cost increases taper off. We should certainly prefer to avoid the sacrifices of production and income which this would, of course, involve but, if we cannot collectively and individually exercise the restraint that is called for in wage and price increases in the present situation, then there would appear to be no escape from an essential cooling-off period....

...Restraint is needed on government expenditures. However, may I say, in order to clarify one point that always causes me some concern when I read it in some of the comments made in the press, that I am not urging business to restrain its investment in productive equipment and in new buildings. I believe it is essential that business should go on expanding and increase its investment.

PRICE AND COST RESTRAINT

The kind of restraint that I am urging here is restraint in the field of prices and costs. This is where restraint is needed. Our objective is to have a steady expansion. The problem that we face, the problem the United States faces and the problem the Europeans face is, how do you combine prosperity with stability?...

On June 1, I forecast budgetary revenues, after the proposed tax changes, of $8,960 million and budgetary expenditures of $9,700 million for the current fiscal year. I now expect that because of rising costs and incomes both of these figures will be up by about 1.5 per cent, leaving the prospective deficit about the same. After reviewing the situation carefully I am now satisfied that the deficit this fiscal year will not exceed what I forecast in the budget and which I still believe is appropriate to an economy in process of transition from a period of too rapid expansion to one of a more sustainable growth-rate.

In June, I forecast our total net cash requirements for the current fiscal year at $1,590 million. As usual, this forecast excluded any amount that was required to finance any changes in foreign exchange reserves after the budget date. I see no reason to expect any increase in our total cash requirements this fiscal year, a large part of which will be met by reducing our cash balances. I shall be endeavouring, of course, to reduce our cash requirements below that figure if I can in order to keep to a minimum our demands upon the capital market.

I should like to re-emphasize the two points I have made because I have seen references in the press and elsewhere to fears that the budgetary deficit this year is going to far exceed our estimates, or that our cash requirements are going to far exceed the figures I put forward in the budget speech. In fact, I am satisfied that we shall stay within those figures.

PLANNING AHEAD

Ordinarily the Government does not settle its future spending plans at this time of year. At present, the situation we face in the capital market and the widespread concern over Government expenditures require us to plan ahead as far as we can the general scale of our expenditures and revenues and our demands upon the capital market next year. The Government is now engaged in a special effort to limit the growth in its expenditures next year. Many of our large spending programmes are now related to the cost of provincial programmes which we support, notably hospital insurance, higher education, assistance to those in need and equalization payments to provincial governments. We must also stand ready to assume our obligations with respect to whatever decisions the provinces make on medicare plans that conform to our legislation. To all of these this Parliament has given a high priority.

(Continued on P. 6)