

Supply—Finance

I should now like to refer briefly to some of the other facts relating to the Canadian economy, and then draw some of the implications for policy from them. Hon. members will recall that we enjoyed a long period of economic expansion from 1961 through the boom of 1966, when the economy reached capacity. In the latter part of that year and in 1967 the rate of growth slackened, particularly in business capital spending, while employment and production levelled off. We were confronted with the problem of keeping the economy on a stable growth path while pursuing our major economic objectives of full employment, stability of prices, a high rate of growth, a viable balance of payments and an equitable distribution of rising incomes.

During last year it emerged that our main problem was to achieve stability of prices and costs despite a lessening in the excessive aggregate demands upon our economic resources. We seemed, however, to be plagued by a cost-push type of inflation even after the demand-pull type had subsided. As we look ahead now I think we will find there is so much to be done in Canada that is worth doing that there doesn't seem likely to be a deficiency of aggregate demands over the next few years, but rather a need for managing that aggregate and assigning priorities to its various components so we can have enough stability to permit sustainable growth.

In the three months since the budget statement of November 30 one of the most important economic factors has been the increasing evidence of rapid economic expansion in the United States. The pause which the American economy experienced in the first half of 1967 has been left behind. Business capital investment is now expanding in that country, and expenditures by consumers and governments are rising rapidly. There is indeed a real possibility of inflationary price and cost increases in the United States such as Canada experienced in the past two years unless there is a tax increase or other forms of fiscal restraint, and I need hardly say that this is the view being pressed by the United States administration.

In continental Europe expansion is to be expected as well. The O.E.C.D. is now forecasting a renewal of expansion in that area during 1968 at a rate of $3\frac{1}{2}$ per cent in real terms. The expansion for the whole O.E.C.D. area including the United States and Japan is forecast at 4 per cent to $4\frac{1}{2}$ per cent.

These external developments are providing a good market for most Canadian exports. One of the most encouraging features of

recent months has been the strong expansion of exports in November and again in December. They have shown strength in all major market areas. Despite the problems encountered in marketing wheat during the past year our merchandise trade surplus for 1967 was substantially higher than that for the two preceding prosperous years.

Industrial production in Canada showed substantial increases in November and December, led by the automotive industry and primary iron and steel. Unemployment has fluctuated narrowly around the $4\frac{1}{2}$ per cent level after allowing for the usual seasonal pattern. Its increase during the past year up to this level has reflected, of course, a variety of factors including particularly the failure of capital expenditures by businesses to expand during 1967.

Business capital expenditures are still influenced by the reduced level of profits in many industries and by concern over costs and the marketing prospects for various Canadian industries. In some cases the level of investment may be affected by the reduced level of retained earnings available for financing it, and by high interest rates, though I have seen little evidence that there is any shortage of bank credit for Canadian business. Any rapid upturn in the level of business capital expenditures is unlikely under present circumstances. Fortunately the current level is high, and permits the expansion of our industrial base and the modernization of Canadian equipment and techniques.

Some improvement is evident in housing. In 1967 housing starts reached a total of 164,000 fewer than we would have liked, fewer than anyone in this house would have liked, but an increase of 22 per cent over 1966 and a better total than many had expected during the year. I have been glad to note that the wider latitude provided for the market to determine the rates of interest of National Housing Act insured mortgages has led to an increasing flow of private funds from various types of institutions. The rates being paid for such funds are high by previous standards and they are, as they must be, competitive with other interest rates in the financial markets both here and in the United States and Europe. I think we can look forward to a higher rate of private housing starts this year than last year, particularly for apartments, while at the same time we are able to concentrate the funds provided by the government to the Central Mortgage and Housing Corporation into various types of public housing.