

ment in new plant and machinery. It is through such investment in modern productive facilities and the use of the best technology — along with good management — that we can best increase the efficiency of Canada's economy, raise our standards of living and create new jobs.

The last two budgets made provision for substantially increased capital-cost allowances on investment in new manufacturing and processing machinery and equipment. In addition, exemption from corporate income tax for three years, as well as faster "write-offs", were offered to new plants establishing in regions which have suffered from slow economic growth and high unemployment. These incentives constituted a very substantial inducement to new investment, which many industries have been quick to recognize.

**BUSINESS RESPONSE**

The response of business to these incentives has been most gratifying.

The promotion of economic expansion by means of new or expanded government lending programmes has operated mainly in the field of municipal construction and in housing. In June 1963, Parliament enacted a Municipal Development and Loan Act, which provided a fund of \$400 million for lending to municipalities across Canada. The purpose was to provide municipalities with the major part of the funds required to augment and accelerate their capital programmes. As an inducement to speedy action by the municipalities, the plan offered a government grant equal to 25 per cent of the amount lent on such projects or parts of projects as could be completed before April 1, 1966. The quantitative effect of this stimulus to municipal investment — not to speak of its indirect benefits — has been impressive.

Up to last December 15, 1,045 loans had been approved, covering projects in 710 municipalities, for a total loan amount of close to \$200 million. The total value of additional or accelerated works represented by these loans is about \$360 million.

**HOUSING ACTIVITY**

Another major activity which we have sought to stimulate over the last months is housing. House building involves a very large amount of employment in itself and responds quickly to changes in the terms on which it can be financed. In addition, the servicing of new subdivisions and the furnishing and equipping of new homes and apartments stimulates a multitude of other industries. Most of the benefits in terms of production and employment tend to remain in Canada instead of going abroad by way of increased imports.

The aim, therefore, has been to encourage a high level of residential construction during the last two years, and to concentrate a greater proportion of it in the winter months. The National Housing Act rate of interest has been reduced, and down-payments and other lending arrangements have been eased. Winter construction has been greatly stimulated by the payment of a \$500 bonus. And the Central Mortgage and Housing Corporation has been authorized to make direct loans to builders on a substantial scale to ensure that adequate financing was available during the winter period.

Largely as a result of these changes, housing starts in 1963 and 1964 have been extraordinarily high, increasing by 14 per cent in 1963 over the previous year, and then by about 10 per cent in 1964. The volume of construction and employment in this industry last winter and this winter has been beyond all expectations.

Economic growth and expansion require action and expenditure by the provinces and municipalities as well as by the Federal Government. The provinces in recent years have been facing serious financial problems as a result particularly of increased requirements for education, for roads and for health and welfare services. These problems have been eased by action taken by Parliament. In part this has been done by specialized programmes, such as those for vocational schools. In large part, it has been done by the more general means of improving the tax-sharing and equalization arrangements with provincial governments....

**GNP INCREASE**

When the books are closed and all the figures are assembled, I think we will see that for 1964 the gross national product should reach \$46.5 billion, about 8 percent higher than the year before, or about 6 per cent after allowing for price increases. Employment is at an all-time high. Unemployment in mid-November was 4.3 per cent of the labour force (seasonally adjusted), the lowest it has been since May 1957. Average wages in industry in November 1964 were up 4.1 per cent over the previous year. The 16 percent increase in investment forecast in mid-1964 looks as if it has been substantially achieved.

In the first ten months of 1964, merchandise exports were about 21 percent higher than a year earlier, and, apart from wheat sales, which were heavily affected by the special sales to Russia, the increase was 17 per cent. Personal expenditures were some 17 per cent above the 1963 level, with this area of demand contributing one of the major factors behind the growth of the economy. Corporation profits for 1964 were at an all-time high.

Despite this expansion, the price level remained reasonably stable.

**NO CAUSE FOR COMPLACENCY**

1964 was the best year in Canada's history in terms of production, jobs, exports, living standards and technical progress. But there is no room for complacency. 1964 was not a fully satisfactory year in some important aspects. Our balance of payments on current account still shows a substantial deficit for 1964, despite our efforts to increase exports. Unemployment in many parts of the country — broadly speaking in the regions east of Three Rivers — was too high. Nevertheless, we have made considerable progress. We must do better in the years to come.

I make no claim, of course, that the achievements of the economy in 1964 were entirely the result of government measures. To say that would be foolish. We are predominantly a private-enterprise country (some people prefer the term "mixed enterprise economy"), and our economic expansion has been the result mainly of non-government investment, spending, building, exporting and so on.