

*Income Tax Act*

which have been enlarged by the present government. These programs include family allowances, old age, blind, disabled and unemployment assistance, the Hospital Insurance and Diagnostic Services Act, medical research grants, subsidies and other payments to provinces, payments to municipalities, veterans affairs, freight assistance, the trans-Canada highway. Over that period these increases come to \$1,075 million.

If you look at the increases over a one-year period you will find that the main increase last year in the categories of health and welfare for increased social security, debt charges, provincial and municipal governments, veterans affairs, transportation and communications, resources development and Indian affairs, aid to education, external aid and general government expenditures, which was only a \$20 million increase, came to an over-all total of \$975 million. Surely the increases in expenditures last year were on programs and projects which had good and worthy ends.

In this connection I would like to point out two things. The first is that of our total expenditures more than 55 per cent are uncontrollable. The second is that some of the biggest increases within the last few years have been under such things as the Hospital Insurance and Diagnostic Services Act and the family allowances programs. The increases with respect to these programs are automatic with the increases in population. Those automatic increases have amounted to \$124 million this year, which could be added to those over which the government cannot exercise control because of the nature of the expenditures themselves.

Therefore I submit, Mr. Speaker, that in our expenditures to an extent never exceeded before in this country we have been relating economic policies and social policies. This is one of the things that has got us into some financial difficulty and why we now have to use the instruments of economic policy perhaps a little more effectively than we have been doing for the last year or two.

These instruments of economic policy, which the house knows are used to influence our economy, are fiscal policy and monetary policy. They are both powerful instruments. The federal government and the central bank—and here I want to pay my tribute to the way the central bank has been managing its affairs—have tried to employ these instruments as effectively as possible in the difficult and changing circumstances that they have

[Mr. Pearson.]

had to face. Yet these instruments do have their limitations. There is no doubt about that.

The impact of both monetary and fiscal policies on the level of demand in the economy is not immediate but takes effect with a very significant time lag, and that means that those policies have to be formulated with a forward view of the economy. But the economy, especially in these days, is often subject to influences that are essentially unpredictable and that make accurate forecasting very difficult indeed. The techniques of economic forecasting have improved considerably over the years but there will always remain unpredictable situations, as pointed out in the report of the O.E.C.D. to which I have referred.

There will always be the risk that the combined weight of monetary and fiscal policy will be inappropriate at some particular period of time. This risk is greatest when the economy is already operating at high levels of output and employment and when a moderate under-estimation of future demand strength may be sufficient to permit the emergence of excessive demand pressure. The reverse mistake could also be made and lead to recession.

Therefore the government has supplemented fiscal and monetary policies by selective economic programs of a longer range importance, designed to improve productivity, to encourage price competition within the economy, and to make it easier for workers to move to the jobs where they are most needed.

Among these are the programs for occupational training and retraining, the labour mobility program, the program for the advancement of industrial technology, industrial research and development incentives, the rural development program and the adjustment assistance programs. The government has also made very substantial funds available to the provinces for vocational, technical and professional education.

These selective programs, along with fiscal and monetary policies, have their effect over the longer term. But in the current situation additional measures are required to have a more direct and immediate effect. We must find some effective means of influencing, not controlling but influencing, the many individual decisions that give rise to increases in incomes, costs and prices. To this end the government proposes to establish a governmental agency, commission or board, whatever it may be called, to review and scrutinize