Budget Papers tabled last Tuesday. The main highlights were the emergence of a strong upswing in the economy, a faster increase in revenues than had been anticipated, and some results from rigorous control over expenditure. Consequently, the actual budgetary deficit was not only substantially reduced from the previous fiscal year, but it was also brought down by $109 million below the level foreseen in the October budget.

The preliminary figures also show that while total expenditures rose by some 9 per cent, half of this increase was accounted for by larger payments to the provinces. These payments, both in the form of unconditional fiscal transfers and in grants for shared-cost programs in health, welfare and education, rose by over $450 million, an increase of some 27 per cent. Additional public debt charges accounted for a further $178 million. The increase for all other federal programs and services provided through the budget was held down to less than 4 per cent, less than the rate of increase in pay and prices in the country as a whole. Despite all that has been said to the contrary, I believe that this result provides clear evidence of the success of our efforts to limit expenditures and cut back wherever there has been scope to do so.

• (8:10 p.m.)

In October I estimated that our net extra-budgetary cash requirements during the fiscal year 1968-69, apart from the financing of our exchange reserves, would be about $600 million. This took into account loans for housing, farm credit, power projects, etc. as well as the requirements of our crown corporations for their investment programs. In fact these loans and investments turned out to be somewhat less than I anticipated in October. As a result the net requirements for all extra-budgetary purposes other than exchange transactions, and one unforeseen extra-budgetary receipt which I shall mention, are now estimated to have totalled approximately $380 million. The special item to which I referred was the amount charged to last year's expenditures for delayed retroactive wage payments of $111 million. The cash was not paid out in the last fiscal year but was credited as noted in the White Paper to a liability account in a manner to offset the expenditure item and reflect the fact that no cash disbursement was made. In addition we did have requirements between October and March 31st to finance foreign exchange transactions. These and the salaries adjustment item offset roughly any reductions made in our loans and advances.

A summary of budgetary and non-budgetary transactions and the changes in our cash position in the fiscal year 1968-69 is set out in Table 1 of Part II of the White Paper on page 164. Overall cash requirements of approximately $1.9 billion were financed mainly by an increase of approximately $1.5 billion in unmatured debt outstanding, inclusive of foreign loans obtained last May to add to our exchange reserves. The remainder of our requirements were financed by drawing down our bank balances by about $400 million, leaving them on March 31st last at about $600 million.

Economic Trend and Prospect

As for the state of the economy, one of the most important highlights detailed in the Budget Papers was the gathering momentum of activity toward the end of 1968, and the carrying forward of a strong advance into the current year. All elements of demand—consumer expenditure, capital investment, exports and total public spending—have contributed to the acceleration. Real production has turned strongly upward and unemployment, which reached a high point of 5 per cent in the middle of last year, has since declined. There have also been a number of important developments in our trade, the balance of international payments, and our foreign exchange position, especially in regard to arrangements with the United States. These have been set out in the Budget Papers, and it will not be necessary for me to review them in speaking this evening.

Looking forward at this time to the balance of the present year, we can now expect a growth rate stronger than in 1968 and considerably stronger than we anticipated last October. With a gain in employment of about 4 per cent, an advance in real output of better than 5 per cent, and assuming an increase in prices about the same as last year, the gross national product is likely to rise by 9 per cent.

This strong expansion is of course welcome, but the main problem is obvious. Although the rate of increase in the price index of the gross national product as a whole has subsided from its peak in 1966, the persistent year-to-year rise in prices and costs is unacceptably high. Further, the very strength of the current expansion clearly aggravates the threat of intensified inflationary pressure,