

The Budget—Mr. Sharp

stronger resurgence of spending, prices and incomes in the United States unless these are held in check by tax increases there. In Canada I would expect consumer demands generally to increase more strongly next year and government demands for goods and services to increase slightly less than this year. The prospects for business capital expenditures on construction and machinery are hard to foresee at this time. Because of the relatively low level of profits this year, business investment may increase relatively little next year unless strongly influenced by the situation and by opinions in the United States.

We have already discussed at length this week the outlook for housing. There will certainly be a strong demand for housing and we can expect more capital to be available to finance it.

All in all, Mr. Speaker, 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. There were many people, among them members on the other side, who predicted that we would soon be facing a recession and warned us about this. But I would suggest to them that nothing like this has happened at all. The situation has developed as it was forecast in the budget speech, namely, that we would 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, Mr. Speaker, and that is that the rate of increase in costs and prices is still much too high. I feel that we must—and we will—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 would 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.

I think it is important for all of us in the house to realize that the root causes of the rising prices and costs that we are now experiencing are not located in any one place. I know that it is very easy for members opposite to point to the government and say "You

are the cause". I suppose this is the natural thing to do. It is always quite natural to point to the government and to say that the government is at fault in a given situation. In the present situation the government does have a responsibility. I hope that we will discharge it, and all my colleagues on this side are determined that we will discharge it.

But even if we fully discharge our responsibilities, Mr. Speaker, there will remain a problem which requires the utmost co-operation of other governments and of the public at large. 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.

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? This is a very difficult problem; I hope we all realize that. I trust that our debate on the subject will illustrate our understanding of the nature of this problem, because it is only if we understand it that there will be the proper public response which is necessary if we are going to deal with it.

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 1½ 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