there is no suggestion whatever of any downward turn in the future.

This problem of managing our prosperity and of dealing with the pockets of poverty that unfortunately still remain is a very difficult one. We have never encountered anything like this before, nor has any other country. We are moving out now onto unexplored territory. When I was in Rio, I discussed these problems with the ministers of finance of other similarly fortunate countries and I found they echoed my words.

This year our grain crop has fallen short of the bumper crops of recent years but is adequate to meet our export commitments and expected demands. Industrial production has increased moderately. Business investment expenditures in the second quarter of the year were down slightly, as expected, both on construction and equipment. Urban housing starts were high in May and June but, as is well known, declined in July and August. Consumer expenditures on durable goods increased strongly in the second quarter of the year. Our balance of payments and exchange position during the summer has remained relatively strong, reflecting the favorable influence of Expo and the centennial year on our tourist trade. The total of all demands on the economy, including those of governments, has continued to increase just about as anticipated.

Total employment has increased modestly during the summer, and the seasonally adjusted figure of unemployment after reaching 4.4 per cent in June declined to 4.1 per cent in August. In the budget speech I indicated—I was very frank about it—that some temporary increase in unemployment was possible this year in view of our rapidly growing labour force and the slower growth rate this year in production. My predictions in this respect were mostly accurate except that I really expected that unemployment might rise even more than it has.

The undesirable rate of increases in prices and costs, to which I referred on June 1, has continued. The need for restraint has not lessened. I shall have more to say about this in a few minutes.

On the whole I would still expect the gross national product this year to increase by 7 per cent or a bit more, around the upper end of the range I mentioned in June. I said at the time that if the figures were higher than $6\frac{3}{4}$ per cent it would probably be accompanied by a further undesirable increase in prices, and that has proven to be the case.

[Mr. Sharp.]

• (3:40 p.m.)

The most notable developments of recent months have probably been those in the capital market. Despite a continuing expansion in the money supply, rates of interest have increased further both in Canada and the United States. Indeed this has been a world wide experience. As I noted on Monday evening in this house, at Rio de Janeiro last week I found that these high interest rates were one of the main preoccupations of nearly all the many ministers of finance attending the annual meeting of the International Monetary Fund. All of us agreed that never before had we been faced at one and the same time with easy money policies and high and rising interest rates. In the past we have associated high interest rates with tight money. Now for the first time we have high and rising interest rates associated with easy money.

In our own case, Mr. Speaker, these high interest rates reflect the attitude of investors on the one hand on the other hand the heavy demands in Canada for savings to finance housing, business investment and government requirements. They also necessarily reflect the high level of interest rates in the United States where similar conditions prevail and from which country we must import hundreds of millions of dollars in borrowed capital. The relationship between our interest rates and United States interest rates must be such as to attract into our country sufficient capital to make up the deficiency in our own savings.

The extraordinary condition of the capital markets is, I believe, influenced by three important factors. First, there is now unfortunately a widespread expectation of price increases continuing over a long period, which makes investors concerned about the real value of long-term bonds and leads them to demand higher yields in compensation. To remove this concern will require action that will dissipate this fear of inflation that overhangs the market. Second, there is an abnormal desire for liquidity, a preference by investors for holding highly liquid assets or short-term securities, and a desire by many businesses to have liquid assets so that they will be less dependent on borrowing in the future. Third, there appears to be a general expectation that the pace of economic expansion will quicken again before long and be reflected in continuing strong demands for capital.

Looking ahead to next year, I still see our own situation much as I described it on June 1 but complicated by the prospects of a