new measures will be more than offset by reductions in planned expenditures and a modest tax increase.

The onslaught of recession has triggered demands for a fundamental reappraisal of our economic policies. The government has examined very carefully alternative policy options. The actions we have decided to take reflect the broad consensus emerging from suggestions made by various groups, individuals and Members of Parliament. In this regard, I am particularly grateful to the Member of Parliament for Trinity (Miss Nicholson) and her committee who have contributed so much to the elaboration of current policy. Any departure from our broad policy approach has been rejected.

[*Translation*]

We have rejected massive fiscal stimulus and the abandonment of monetary restraint because this would only worsen inflation and aggravate unemployment. We have rejected broad mandatory controls of prices and incomes. Broad controls are opposed almost unanimously by business and labour. On no other issue have I received stronger representations from the private sector. Controls would merely postpone the basic shift in economic behaviour that is needed—a shift to discipline and restraint, self-willed and self-imposed. It is to that basic change, rather than to massive government intervention, that the government has decided to devote its energies.

[*English*]

A STRATEGY TO BRING DOWN INFLATION

Moving toward recovery requires that we take immediate action to bring down inflation. The central difficulty in reducing inflation is to break expectations that inflation will remain high indefinitely. Such expectations tend to be self-fulfilling: incomes chase prices, which in turn chase incomes in a vicious spiral. No one wants to be the first to accept a lower increase in pay than the next person. Unions are busy catching up with the ones that just settled for 12 or 14 per cent a year. Businesses and firms are busy raising their prices to catch up with or anticipate cost increases. Governments are also busy raising their taxes to catch up with the inflation of their expenditures. So the spiral goes on.

It is critical that we break that vicious circle. And when I say "we", I mean all Canadians, not just wage-earners and not just unions. I stress that our efforts to bring down inflation are not directed against labour or any other group in society. We are all caught in the spiral and, more often than not, against our will or our better judgment.

It is within our power, through deliberate and concerted action, to bring down price inflation much more quickly. We can do this by accepting, for the time being, income increases that are lower than the current rate of inflation. A reduction of income demands will lower cost and price increases. In this way we can stop feeding the spiral of inflation.

This strategy will lead in the short run to a lowering of our real income. But it will soon slow the process that is eroding our pay cheques. It will stop the rise of unemployment. And it will establish a firm basis for resumption of real income growth throughout the economy.

That is the first immediate action that I am proposing.

I am urging Canadians to lower their demands for income increases to 6 per cent during the 12 months ending in July 1983, and to 5 per cent in the following 12-month period. I am also urging businesses to lower price increases as costs go down and profit margins are restored over this two-year period. I am calling on everyone to help Canada make the difficult change-over from the 12 per cent world that has mired us in recession to the 6 per cent world that will bring recovery.

Solidarity and sharing built Canada. That sharing is what the unemployed, the many firms in trouble, and the thousands threatened by lay-offs now need. I count on the willingness of all Canadians to bear their share of the collective effort to bring down inflation. Commitment to restraint and discipline in our income demands is the price we must pay to get the economy growing again and to make it possible for all eventually to benefit from rising employment and real income.

The government will seek consultations with business and labour to determine the best ways of implementing this strategy. We will also examine with the provinces how the efforts of all might best be co-ordinated.

PAY RESTRAINT IN THE FEDERAL PUBLIC SECTOR

The private sector and the provinces could not be expected to accept income restraint unless the Government of Canada showed leadership in the conduct of its own affairs. The government has therefore decided to lead the way by implementing the proposed strategy in the federal public sector for a period of two years.

First, legislation will be introduced this week in Parliament to cut pay increases for ministers of the Crown, Members of the House of Commons and Members of the Senate from 11 to 6 per cent for the rest of this year. The limit will be 6 per cent next year and 5 per cent the year after.

Second, increases in the rates of pay of all deputy ministers, heads of Crown corporations and senior executives of the public service will be limited to the same targets of 6 per cent and 5 per cent for the next two years. The advisory group on executive compensation in the Public Service recently recommended that the rates of pay of deputy ministers and senior executives be raised by 9½ per cent as of April 1 of this year. Instead, they will be limited to 6 per cent effective July 1.

Third, increases in the rates of pay of other employees in the federal public sector will be constrained to no more than 6 per cent in the first year of the application of the program to them and 5 per cent in the second year.

• (2030)

The coverage of the program will be broad. In addition to the ministry, Members of Parliament, the judiciary and the public service, the program will apply to the Canadian Forces, the Royal Canadian Mounted Police and Crown corporations.