

various duties and purposes of the Government of Canada and what priorities should be given to them, taking into account all the interests and wishes of the Canadian people. He must form a view as to how these programmes of expenditures on the part of the Government of Canada can be fitted into the requirements of the private sector of the economy, to meet the demands of consumers and of business. He must take into account what the provinces and municipalities are doing and what they require. The Minister of Finance, along with the Prime Minister and others, must find some means to reconcile these various demands upon the resources of Canada and to do so by action that will ensure a productive, prosperous and growing economy in which proper priorities have been accorded to various economic and social objectives.

That is my concept of the role of the modern Minister of Finance. Now let me turn to consider briefly some of the major problems to which it must be applied in 1966.

AGENDA FOR '66

We can reasonably expect another year of high employment, production and income in 1966. The expansion in real terms in 1966, compared to 1965, cannot be as great as it was in the preceding two years because we are now closer to the physical limits of our capacity. Given a labour force growing at a rate of roughly 3 per cent, and a greater increase in productivity than has occurred recently, it should, I think, be possible for Canada to produce perhaps 5 percent more in real goods and services. We cannot reasonably, of course, count on another bumper crop.

Our major problem this year seems likely to be to restrain the economy from trying to expand more rapidly than is physically possible. Too rapid an expansion in expenditures, private and public, would contribute to inflationary conditions and lead in due course to a frustrating recession.

The expansion will be restrained somewhat by the payment of contributions to the Canada and Quebec pension plans. Yet, even after taking this into account, it looks as if total expenditures will be at least high enough to sustain a good rate of growth in our production, and perhaps so high as to put undesirable pressure upon our capacity to produce, and on prices.

That being so, I believe it is desirable that the Federal Government should continue the policy of postponing such expenditures as we can, particularly on public construction projects and programmes until after 1966, except in certain areas of higher than average unemployment. In order to harmonize federal and provincial policies in this field, I have expressed this view to the provincial ministers of finance and treasurers and discussed the situation with them....

BUDGET SITUATION

Our budget position in this current fiscal year has been better than the Honourable Walter Gordon was able to anticipate at the time of his budget speech last April. The strong economic expansion has increased our revenues \$200 million above the budget

forecast, which will probably leave a deficit in the traditional sense of less than \$100 million. In terms of its impact on the economy, as shown in the national economic accounts, we should expect to show a surplus of perhaps about a third of a billion.

You will not expect me to be at all specific about the next fiscal year as the budgetary position will depend in large measure upon decisions that have not as yet been taken. However, there are certain factors that are already clear. Federal expenditures will be up substantially, in part, because of the built-in growth in some items and in part reflecting new measures already announced. We are being pressed to undertake additional financial support for the universities, the importance of which is widely recognized. On the other hand, our present tax law includes a provision to divert an additional part of the personal income tax to provincial governments, starting today, and it also provides for the tax cut of last July to be in effect for a full year. We will also lose some revenue because the contributions to the Canada and Quebec pension plans will be deductible from taxable income....

BANKING LEGISLATION

Quite apart from the budget, there will be a substantial amount of financial legislation this year. The centre-piece, of course, will be the banking legislation, which includes both the revision of the Bank Act and the amendments to the Bank of Canada Act, as well as other statutes. I am reviewing now, in the light of events and developments of the past year, what was put before the House last spring. I do not propose to make any comment on the substance of this legislation before presenting it to the House, except to say that there will be some changes. My own opinion is that our legislation should go as far as is practicable to strengthen public confidence in our financial institutions and to promote competition among them for the benefit of the public at large.

INTERNATIONAL MATTERS

As Minister of Trade and Commerce, I was primarily concerned with our export problems and policies. Now, as Minister of Finance, I must turn my attention more directly to problems relating to tariffs and imports. This will be the crucial year in the negotiations in GATT of the "Kennedy round" of tariff reductions and reductions in other barriers to trade. We shall be playing our full part. We shall also have to continue to deal with the important problems of adjustment to what have come to be called "low-cost imports", and the avoidance of market disruption. My general views on trade policy are well known, and I should not expect to change them as a result of a change in portfolio. I have no doubt, however, that I shall have a different set of problems brought vividly to my attention.

As to our balance of payments, I need hardly remind you that Canada has had large deficits on its current account in its balance of international payments in most years over the past decade, relieved only in part by the large sales of grain to Russia and China since 1963. We have been able to improve our situation with the help of the change in our exchange