

### COURSE OF FISCAL ACTION

It is against the foregoing background that we must now consider our course of action. We consider it necessary to maintain the kind of strong fiscal position which Bill C-193 was intended to help create. The purpose of such a fiscal policy is to check the inflation that I have described by bringing our revenues into line with our expenditures. It is the most essential element in a programme directed to that end. Until we have an adequate fiscal framework, we cannot properly endeavour to supplement it with other measures.

The new tax proposals will provide nearly as much revenue as Bill C-193 would have produced — \$390 million of budgetary revenues compared to \$425 million of budgetary revenues. We should receive an additional amount of \$50 million non-budgetary receipts in each case. We propose to make up the difference — and more — by a further reduction of \$75 million in Government expenditure for the next fiscal year. This can only be done by tough and somewhat arbitrary measures of a temporary character, which are appropriate in an emergency like the present one. We propose to table a revised schedule of estimates reflecting these reductions for the approval of Parliament, in place of the present main estimates.

I also want to announce that the Government has decided to impose a freeze forthwith on the total numbers employed in the Public Service as a whole....

### INCREASING COSTS AND PRICES

The chief limit which confronts us now and about which we have learned much in the last several years is that of the inflationary tendencies that develop as we approach toward full employment. We have found that at a level of unemployment of 3.5 per cent in 1965 and 1966 our prices began to increase sharply. Our costs increased much more rapidly than did those of competing economies.

Even when the level of employment dropped off a little and the pressure of demand upon our markets was intense, we have found that the momentum of wage increases, of other cost increases, of price increases, has kept up. That is now the chief constraint upon our policy.

Nor is our problem simply the actual price increases taking place now. What is most disturbing is the growing tendency to expect that prices will continue rising year after year in the future. It is this amongst other factors which is causing workers to seek such high wage settlements. It is this which is

causing investors in this country and elsewhere to seek such high interest rates. It is this which is causing despair among the old and others with fixed incomes — especially those who are living on the savings they have made over many years. It is this which is creating uncertainty in the minds of those whose productive investment must give us more and better jobs in the future. It is this expectation, most fundamentally, which is the concern of those who must choose between investments in Canada and investments elsewhere....

We must give priority in our fiscal policy to resisting inflation. We must also plan, in consultation with business, with labour, and with all those whose decisions are important in determining prices, a means of greater understanding of the mutual danger of excessive increases in prices and in wages, and other costs by which those in positions of strength can exploit their market power under present circumstances.

### ECONOMY CONTROLS UNFEASIBLE

We cannot accomplish this direct influence upon prices and wages by imposing a system of controls upon our economy. We have not the legal jurisdiction here in Parliament to do it, nor could we expect under peacetime conditions to solve the multitude of detailed problems that would require solution in exercising a rigid programme of this kind. We are essentially a market economy exposed to the markets of the world. By and large, over decades we have prospered by reason of this open economy. We have developed and expanded faster than almost any other country in the past 30 years. It would be retrograde and unnecessary to abandon all the advantages we derive from operating as a market economy — including not only the markets for goods and services but the markets for labour and for capital. On the other hand, we have to reconcile our overall economic policies, and to achieve our basic economic goals within the framework of free markets.

Instead of legal controls, we must use whatever powers of persuasion and influence we can muster in order to bring about pricing decisions and wage settlements that take into account the overwhelming public interest in price stability. Our purpose and programme which will, as I have said, revolve about the establishment of a Board of Review, will be to get price stability with a higher current level of employment than we could have if we relied only on fiscal and monetary measures to achieve our ends....