

inflation by trying to finance these additional expenditures by means of an enlarged budgetary deficit. The only question was whether, in addition to raising additional revenues to meet these expenditures, the Government might not still need to take further action to restrain demand in the economy as a whole. In accordance with the policy established in March, we deferred a number of otherwise highly desirable programmes, including medicare and student scholarships, which would have thrown heavy additional burdens upon an already overloaded economy.

When we finally did come face-to-face with the necessity of financing the Guaranteed Incomes Supplement to old-age pensions when the legislation was approved last month, it was apparent that some of the excess steam had indeed been taken out of the economy by our policies and by other developments, and that a healthier balance between demand and supply had been established. Thus I was in the position – and very glad to be in that position – of having to ask the House of Commons in my mini-budget to do no more than meet the \$280-million bill arising out of the Guaranteed Incomes Supplement. It was designed to be a neutral budget from an economic point of view. This I thought was the right approach before Christmas. I see no reason to change my view now.

As I see it, 1967 should be a good year. There will probably be a continuation of some price increases, but there is a good prospect that the general level of prices will not rise as rapidly in 1967 as in 1966. The rate of growth in demand is likely to be more nearly in line with the growth in capacity. This is what is needed, even if the rate of increase in output is somewhat less than in 1966.

ECONOMIC STIMULATION NEEDED

It would not be inconsistent with this view if, as 1967 develops, we decide that stimulation is needed in some parts of the economy. I am thinking especially of housing, so important to the lumber industry, where a reduction in activity and some spare capacity has been the result of excessive demands for capital in other sectors of the economy. A continued low level of housing activity is not desirable. Already the Government has taken specific action to revive housing activity by way of increases in the maximum lending rate on NHA mortgages, to induce investors to place more funds in this area, and the interest-rate formula has been made more flexible, which should enable lenders to make plans for future funding. The Government has also, in its proposed revision to the Bank Act, made it possible for chartered banks to enlarge their lending in the housing fields. As a result of legislation approved before Christmas, Government funds are available for the sale and refurbishing of used houses, and to increase in other ways the availability of funds for housing. All of these moves should help ease the housing situation.

If there were any sign that economic weakness had become general and that specific actions of the type I have been talking about were unlikely to be adequate, then more general stimulating measures

would be in order. In such circumstances I believe, as I said in my budget speech five weeks ago, that the appropriate mix of policies would be one which permitted an easing of the credit situation. Of course, our balance-of-payments situation is such that we require substantial imports of capital. Our interest rates in Canada must be somewhat higher than those in capital exporting countries if this capital inflow is to materialize. Fortunately, there are signs that other countries are beginning to wind down a little from the extremely high pitch of interest rates which characterized most financial markets in 1966. As you know, in recent weeks there has been some reduction in money rates in Canada – a most welcome development.

It should hardly be necessary for me to add that, if signs of excess demand were to re-appear, I should not hesitate to bring in extra measures of restraint....

SIX-YEAR EXPANSION

Canada has now been expanding steadily for six years – the longest period of continuous expansion that this country has ever experienced. The pessimists assume, as a matter of course, that, sometime, expansion will be replaced by contraction – the old boom-and-bust mentality. I do not say that this cannot happen, because we are subject to influences from abroad over which we have no control. What I do believe is that if Canada and her principal trading partners follow sensible policies – restraining inflationary pressures when that is appropriate and standing ready to give stimulus when slack begins to appear – avoiding extremes – it need not happen.

What should give all of us courage and confidence is that, during the last six years of continuous expansion, the gross national product, Canada's total output has grown by about 40 per cent in real terms, in terms of goods and services. And yet there is so much more to be done to raise the standards of living of the Canadian people, to provide them with the opportunities for a more satisfying life, to remove those pockets of poverty in our cities and in our countryside that should make us blush with shame, and to enable us to help those two-thirds of the world's population in the developing countries that still live in abject poverty....

It is important to ensure that every region and cultural group in Canada gets a fair break. I can tell you, as a Federal Cabinet Minister deeply involved in federal-provincial relations, that this is a source of constant concern in Ottawa. If your interests, as British Columbians, are not adequately taken into account when great national policies are being developed or when important regional projects are being planned, you will surely develop a sense of grievance which could undermine your feeling for Canada. The same holds true in every province and every region of Canada.

FAIR BALANCE DESIRABLE

But it is also possible to transform this healthy self-interest into a kind of pathological provincialism. We all know the symptoms. In its most