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THE NEED TO PREVENT INFLATION

The following speech was made to the House of Commons on September 8 by Mr. Mitchell Sharp, the Minister of Finance:

...We have had a long and strong economic expansion in the past five and a half years. It has carried us from a condition of serious and persistent unemployment to one of widespread prosperity and virtually full employment. There is still too much unemployment in certain areas of Canada, and among those who are poorly educated and unskilled, but this arises from reasons other than a shortage of opportunities in Canada taken as a whole. Total expenditures of money by consumers, by business, by government — and by those who want our exports — are now more than adequate to support a healthy level of economic growth.

Our main economic problems are now twofold — first the longer-term problems of educating and adapting our growing labour force and improving our capital resources to meet the opportunities presented in our modern world and second the shorter-term problem of preventing excessive total expenditures and excessive increases in prices and in costs of production. It is this second range of current problems which concerns the House today and about which I will speak.

A GOOD RECORD

Canada's general record in regard to prices and costs during the past 30 years has been good. Our war finance and wartime price and wage control were effective and fair. During the period of decontrol and readjustment to peace-time conditions, we suffered some inflation, as everyone else did. Much of it was inevitable as we readjusted to price levels in the

United States and elsewhere. During the Korean War in 1950 and 1951, prices rose too rapidly in Canada as well as elsewhere; I think now we all should have done more to check them. Since that time, from 1952, until about a year ago, our prices were reasonably steady — rising over the period by an average of 1.4 per cent a year in the case of consumer prices — which was less than that of most other countries, though slightly more than that of the United States. This period covered the boom of the mid-Fifties, the period of relatively high unemployment of the late Fifties and early Sixties and most of the recent long period of expansion. Over this period, average hourly earnings of Canadian workers increased by an average of about 4 per cent a year — as shown by our statistics and average personal incomes *per capita* for all Canadians by 4 per cent.

By the middle of last year it was evident that costs and prices in the field of construction were rising too rapidly, and in the summer of 1965 the Government began to cut back its own construction programmes to counteract this, and urged others to do the same. We have kept this policy of restraint since that time, though it has not achieved as much success as I should like to have seen.

Speaking generally, Canadians have been very impatient to get on with very many things both directly and through their governments — and now we are paying the price of trying to do too much all at once.

During the past 12 months, the increases in costs and prices have been spreading in Canada as elsewhere. The chief cause is the continued rapid growth of total expenditures and a very high level of demand, which makes it possible for labour and business to demand more and get it. There are Canadians in

almost all walks of life who seem to have reached the conclusion that now is the time to get more while the getting is good. As a result we have had accelerating increases in prices and costs, accompanied by urgent and pressing demands by special groups for more income, using whatever means are open to them.

DEMANDS ON ECONOMY MUST ABATE

We have now reached a position that is unstable – the present trends just cannot continue for long into the future. We cannot all get what we want and do what we want; if everyone tries, there is going to be an excessive rise in prices and in costs, because right now the country just couldn't – no matter how hard it tries – produce enough to meet all the demands. If this kind of boom goes on, many will suffer as a result of higher prices and from the inevitable upset that will follow. All Canadians will suffer if a continued boom should lead to a bust. We must moderate our pace so that we can continue to grow in a steady way, with a continually increasing standard of living and with the economic and social improvements that we can afford year by year. Such moderation does not require that we cease to make progress toward social justice nor that those who have lacked opportunities must be left without help.

Let us bear in mind some simple facts. We are now producing about all we can in Canada this year. We have excellent market opportunities at home and in other countries. We have again been lucky in getting huge grain crops at a time when grains are in great demand. Our labour force is growing at a rate of a bit over 3 per cent a year – and is becoming better educated and trained. Our productivity – the volume of goods and services per worker that we can produce – is growing somewhere between 2 and 3 per cent a year overall. Canadians can expect an increasing standard of living – on the average – which increases at a rate that bears some relationship to their average increase in productivity – say about 3 per cent a year over a long period....

If...some succeed by the strength of their position in getting substantially more than this increase in real income from year to year, others must get less than this increase. This applies to the owners of companies that sell goods to earn profits as well as those who sell their labour to earn salaries and wages.

We must also recognize that the average Canadian, although he is a fortunate citizen of the world and can look forward to a steadily rising standard of living, cannot have the same standard of living as the average American – at least not for some years. We just don't produce as much – we have not the same productivity in our industry – and we are not as rich in capital and technical capacity.

Our prices and wages are the result of bargaining and of market forces – and of the efforts of individuals, businesses and groups to better their position. Prices are not held under control by governments, either federal or provincial, apart from minor exceptions like public utilities, which enjoy monopoly positions. There are laws to prevent businesses from

combining to increase or maintain their prices and profits. Such laws do not apply to workers, however, who are not only permitted but encouraged to organize and bargain collectively. This is one of the cornerstones of modern industrial democracy. On the whole this system has worked and has enabled great progress to be made in improving the incomes and status of workers. Parliament is engaged this session in setting up a framework for the extension to its own civil servants of this power to organize and bargain collectively – so it is clear we think well of it in principle.

Our experience this year, however, shows that these processes by which Canadians increase their incomes – their prices, their profits and their wages – have dangers as well as virtues. They can bring about excessive demands and excessive increases. They can promote inflation at the high levels of employment, and low levels of unemployment which we have now achieved. It is clear that, if we are to succeed in maintaining high employment along with price stability, we must improve the working of our economy. We do not want to be forced to aim at a lower level of employment in order to avoid inflation. This is the kind of cure for inflation that could be almost as bad as the disease, and is to be avoided if at all possible. But to maintain high levels of employment without inflation is not a task for the Government alone – it is only possible if business and workers will accept it as a serious objective and help to make it possible.

HALTING EXCESSIVE PRICE RISE

I think we should all agree that we should not let our economy persist in this rising and excessive rate of increase in prices and costs – including wages. But it is easier to reach that judgment than to implement it. What practical means can we use to check this rise – and to get back on to a stable path of economic growth?

First we recognize that most of us do not want – and in any event we cannot impose – Federal Government control over prices and wages generally. This is only within Parliament's powers during a national emergency like war. In practice, price and wage controls would be unworkable in a diverse economy such as ours, so actively engaged in foreign trade and based essentially on a free-market system for business and collective bargaining for labour. I say this as one of those actively involved in the successful war-time price and wage controls. Moreover, we as politicians really do not want the responsibility for deciding on everyone's prices and wages – we should be in endless trouble. Our recent experience in trying to deal with railway wages is evidence enough on that point.

Secondly, we must consider the possibilities of an "incomes policy" such as some overseas countries have had, or "guide-posts" for wage and price increases such as the United States has had. An incomes policy implies not a government control but the expression of government views to focus public opinion on changes in particular prices and particular wage disputes. It involves persuasion and, if

NORTHERN EXPLORATION GRANTS

Mr. Arthur Laing, Minister of Northern Affairs and National Resources, announced recently that the regulations governing mineral-exploration grants under the Northern Mineral Grants Programme had been approved. Under the programme, up to 40 per cent of an approved exploration project in search of mineral or oil carried out in the Yukon or Northwest Territories can be provided by the Department. If the project is successful, the grant is repayable over a ten-year period beginning when production starts; if it is unsuccessful, the grant being regarded as a contribution to the northern exploration effort, need not be repaid.

The programme is intended to provide an incentive that will attract additional sources of capital to northern exploration. In particular, it is aimed at those individuals and companies not eligible at present to take advantage of exploration expenditure deductions for determining income tax liability. Special recognition is given however, to companies formed for the purpose of and conducting exploration only in the North.

SIZE OF GRANTS

Mr. Laing explained that, in order to ensure continuity of exploratory effort, Parliament had been asked to authorize total commitments of \$9 million in the current and subsequent fiscal years, of which \$3 million would be made available for grants this fiscal year. This system will allow exploratory programmes to be planned over a period, if necessary, extending over several years. Programmes will be carefully scrutinized to make sure that only genuine exploration, recommended by a suitably qualified person, is intended on claims, leases, or exploratory permits already held by the applicant. There will be no attempt to dictate the type of exploratory programme that an applicant intends to undertake.

The Minister pointed out that the Northern Mineral Grants Programme was not taking the place of, or meant to augment, the existing Prospectors' Assistance Programme, which filled a need in a different phase of mineral exploration. Further, he stressed that any applicant would be ineligible to receive a grant, even after it had been approved, or received a grant in the future, if he represented, directly or indirectly, by any means, that sponsorship of his company or of his exploratory programme was implied when the Government approved the making of a grant.

STUDENT AID SCHEMES

The External Aid Office announced recently that 2,600 students and trainees from developing countries were studying in Canada during 1966 under various external-aid schemes.

Candidates for scholarships are selected in accordance with their ability to help meet their countries' development priorities and forward their plans, rather than by a purely academic standard. The Canadian

scholarships provide for all the needs of a student while he is away from home, including his transportation, living allowance, tuition and medical treatment.

Since 1950 a high proportion of all External Aid scholars have successfully completed the training originally requested or an alternative programme believed to be more appropriate by the Canadian training institution, the trainee and the overseas government.

SCHOLARSHIPS AVAILABLE

Several types of scholarship are offered: university undergraduate, university graduate, university post-doctorate studies, sub-professional training (trades and technical training), special group programmes and fellowships for practical attachments to "on-going" programmes such as industry or government departments. Provincial governments have been most co-operative in providing practical attachments and facilitating programme arrangements in education, public administration, social welfare, and others.

GROUP TRAINING PROGRAMMES

Five group training programmes are available on a continuing basis. These include social leadership at the Coady International Institute, St. Francis Xavier University, Nova Scotia; co-operatives development (English) at the Coady International Institute and the Western Co-operatives College in Saskatoon, Saskatchewan, and co-operatives development (French) at the Institut Co-opératif Desjardins at Lévis, Québec; public administration (English) at Carleton University, Ottawa, and at the University of Ottawa (French); two labour leadership training programmes, at the Canadian Labour College in Montreal and with the Canadian Labour Congress in Ottawa; and international business, at Waterloo Lutheran University, Ontario.

The graduate diploma in public administration at Carleton University is designed for those in, or planning to enter, the public service who already have a university degree but desire further training in the fields directly related to public administration. These include political science, public law and economics. This year, for the first time, French-speaking students are able to study public administration in their own language at the University of Ottawa at a course administered by the Faculty of Social Sciences.

UNESCO DELEGATION

The Secretary of State for External Affairs, Mr. Paul Martin, announced recently that Canada would be represented at the special inter-governmental conference being convened by the United Nations Educational, Scientific and Cultural Organization (UNESCO) in Paris from September 21 to October 5.

Leading the Canadian delegation will be Mr. Graham McInnes, Canada's Permanent Delegate

to UNESCO in Paris. Other members will be: Mr. F.T. Atkinson, Fredericton, Chief Director and Deputy Minister of Education, New Brunswick, Mr. Raymond Laliberté, Quebec City, President of la Corporation des Instituteurs et Institutrices du Québec, and member of L'Association canadienne des éducateurs de langue française; Mr. Charles D. Ovans, Vancouver, General Secretary, British Columbia Teachers' Federation and representative of the Canadian Teachers' Federation; and Mr. Howard Pammett, Ottawa, Executive Assistant to the Director, International Labour Affairs Branch, Department of Labour.

The Conference is to examine a draft recommendation to member states on the status of teachers, which was prepared by a meeting of experts jointly convened by UNESCO and the International Labour Organization (ILO) in January; it is expected to adopt a final draft recommendation which will be submitted to the thirteenth session of the general conference of UNESCO in November. The recommendation is concerned with educational legislation and administration; pre-service and in-service training for teachers and educational research; practical primary and secondary teaching; and the role of teachers' organizations.

COST OF LIVING STILL RISING

The consumer price index for Canada rose 0.4 per cent to 144.9 at the beginning of August from 144.3 in July. The August index was 3.9 percent above the level for August 1965, which stood at 139.4. Most of the increase was a result of higher food prices, which moved the food index 1.4 percent upward. Fractional increases occurred in the indexes for housing, health and personal care, and in recreation and reading. The index for tobacco and alcoholic beverages remained unchanged in August, while the clothing and transportation indexes declined.

FOOD

The food index advanced 1.4 per cent to 148.1 in August from 146.0 in July. Prices for most of the basic foods increased, including all dairy products except processed cheese, cereal products such as bread, flour, macaroni, cookies, most meats, eggs, butter and margarine, and fruits and vegetables such as bananas, apples, strawberries, onions, cabbage and tomato juice. Lower prices were recorded for sugar, tea, coffee, soft drinks, lard, grapes, raisins, potatoes, carrots, tomatoes, sausages, liver, and meat loaf.

HOUSING

The housing index moved up fractionally to 145.0 from 144.8. Higher prices for shelter, utensils and equipment, and household supplies outweighed price decreases for home furnishings, floor coverings and some textiles. The clothing index moved down 0.3 per cent to 124.8 from 125.2. Fairly widespread price decreases in wearing apparel outweighed higher

prices for men's work shirts and trousers, ladies' foundation garments, men's and children's shoes, and piece goods.

TRANSPORTATION

The transportation index declined 0.4 per cent to 150.6 from 151.2. Lower prices for automobiles outweighed price increases for taxi fares and motor oil. The health and personal care index rose fractionally to 181.3 in August from 181.0 in July. Price increases were reported for pharmaceuticals and for personal care supplies such as toothpaste, face cream and powder, cleansing tissues, sanitary napkins and razor blades.

The recreation and reading index moved up slightly to 159.6 from 159.3 as prices for camera film, bicycles and admission to sporting events increased. The tobacco and alcoholic beverages index remained unchanged at 125.1.

INSURANCE FOR FARM WORKERS

The Minister of Labour, Mr. John R. Nicholson, announced recently that employment in agriculture and horticulture would be insurable under the Unemployment Insurance Act as of April 1, 1967. The Minister said that the extension of unemployment insurance to agriculture, for which farm organizations have pressed for some time, should be of material help in making farm labour employment more attractive and in overcoming difficulties which farmers have experienced in securing capable farm help.

Under certain conditions, casual farm help hired for a few days only may not be insured and casual workers who do not ordinarily derive their livelihood from insurable employment will be exempt. The farm employer in such circumstances will not have to pay unemployment insurance contributions.

The decision to include agricultural and horticultural workers will bring under the unemployment insurance programme another large group of workers who are employed under a contract of service. Employments remaining excepted are hunting and trapping, employment in a hospital not carried on for the purpose of gain, employment in charitable institutions, teachers, members of the armed forces or of a police force, and domestic service.

REMOTE-CONTROL LIGHTHOUSES

Radio remote-control systems for use in untended lighthouses have been developed by the National Research Council of Canada at the request of the Department of Transport. Extensive tests with the systems have shown that it is possible for lighthouses without easy access to electric power to be operated efficiently without resident personnel.

Two lighthouses at present using systems developed by the Navigational Aids Section of NRC's

Radio and Electrical Engineering Division are Pelee Passage Lighthouse in Lake Erie and Sidney South Bar Lighthouse in the Sydney, Nova Scotia harbour.

Remote-control equipment was installed two years ago at Pelee Passage Lighthouse, which marks the last course change for ships on the approach to the mouth of the Detroit River. This lighthouse, located on a sandbar 3.5 miles northeast of the north end of Pelee Island, is difficult to reach and the Transport Department has difficulty in obtaining and keeping lighthouse personnel.

The equipment at the lighthouse consists of a fog alarm, a main beacon light and a standby beacon light. The fog alarm is remote-controlled, while the beacon lights are controlled at the lighthouse by day-light switches.

PRESS POST IN WASHINGTON

The Prime Minister announced recently that, Richard O'Hagan, his Special Assistant and Press Secretary, had been appointed Minister Counsellor (Information) at the Canadian Embassy in Washington, D.C. Mr. O'Hagan will assume his new duties before the end of the year.

The Prime Minister described the post as "one of the most important press and information assignments in the Canadian Government".

Mr. O'Hagan has been Press Secretary and Special Assistant to the Prime Minister since April 1963. He was also a special assistant to Mr. Pearson when the latter was Leader of the official Opposition. Before that, he had been a journalist and public relations executive.

CANADIAN DELEGATES TO ILO

Canada is represented at the eighth American Regional Conference of the International Labour Organization, which began on September 12 and will end September 23, in Ottawa, by a delegation including representatives from federal and provincial governments, employers and labour. It is led by Mr. John R. Nicholson, Minister of Labour.

The federal ministers accompanying the delegation are Mr. Paul Martin, Secretary of State for External Affairs, Mr. A.J. MacEachen, Minister of National Health and Welfare, and Mr. Jean Marchand, Minister of Citizenship and Immigration.

Owing to the absence of Prime Minister Pearson in London attending the meeting of Commonwealth prime ministers, Mr. Martin, in the role of Acting Prime Minister, extended Canada's welcome to the conference delegates from North, South and Central America and the Caribbean, at the opening session of the conference.

The constitution of the International Labour Organization provides for two government delegates, one employer delegate and one worker delegate at

ILO meetings, each with voting power. The two government delegates from Canada are Mr. John R. Nicholson, Minister of Labour and Mr. George V. Haythorne, Deputy Minister of Labour. The employer delegate is J.W. Henley, Vice-President, Personnel, Canadian Westinghouse Company, Limited, Hamilton. The worker delegate is Joe Morris, Executive Vice-President, Canadian Labour Congress.

The Ministers of Labour from Quebec, Saskatchewan, Nova Scotia, Alberta, Ontario and New Brunswick are attending the conference.

NEW A-POWER STATION

The Federal Government recently authorized Atomic Energy of Canada Limited to proceed with the design and construction of a nuclear power-station in the Province of Quebec. The Gentilly nuclear power-station is to be built at Pointe aux Roches on the south shore of the St. Lawrence River about ten miles downstream from Trois Rivières. The plant, which will have an output of 250,000 kilowatts of electricity, is expected to go into service in 1971. Its cost is estimated at \$106 million.

DEAL WITH HYDRO-QUEBEC

Under an agreement with Hydro-Quebec, AECL will build the power-station and own it initially. Hydro-Quebec will operate the station and buy the power it produces.

When the station has demonstrated its reliability and its suitability for incorporation into the Quebec hydro system, Hydro-Quebec will purchase the plant. The purchase price will be such that Hydro-Quebec will be able to produce power from the nuclear plant at a unit cost of energy equal to that from a conventional power-station (i.e., one powered by coal or oil) of the same size built in the same region. This arrangement is similar to that between Ontario Hydro and AECL for the Douglas Point Nuclear Power Station on Lake Huron.

COURSES FOR FLYING TEACHERS

For the fifteenth consecutive year, the Department of Transport is to sponsor two refresher courses for civil flying instructors. All licensed flying instructors are being invited to apply for the courses, each of which is limited to a class of 30.

Department of Transport personnel are responsible for the lectures on technical subjects and day-to-day supervision of all phases of training throughout the 10-day courses. The courses will be managed jointly by the Royal Canadian Flying Clubs Association and the Air Transport Association of Canada. Costs will be borne by a grant from the Government.

Established in 1952, these courses improve flying instructional ability and maintain a high standard of training throughout Canada. They also help flight

instructors to keep themselves informed of aviation developments.

CURRICULUM

Courses include classroom lectures and air practice of flying-training exercises. All class members fly two hours a day in training airplanes, two together, exchanging instructional methods and training and techniques on a mutual instructional basis. Both visual and instrument exercises are included. Each instructor receives several periods of instruction in a flight simulator and also a demonstration of the use of radio aids to navigation and approach procedures in a twin-engined aircraft. Five hours a day are devoted to lectures on visual and instrument flight instruction, meteorology, air-traffic control procedures and operational techniques, supplemented by training films and writing précis. Lectures include a series on the principles of teaching and learning as applied to flight training.

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THE NEED TO PREVENT INFLATION

(Continued from P. 2)

necessary, criticism, along with voluntary and systematic adherence to certain policies and standards. It would require, in Canada, co-operation between federal and provincial authorities and a willingness in the business world, as well as in unions and the ranks of labour, to follow voluntarily a central lead that enjoys a wide consensus of agreement and respect. While all of these conditions do not now prevail, I hope that in time we can meet these requirements, achieve this consensus, and develop this kind of voluntary policy. But we cannot get an incomes policy now by merely voting for it here — or advocating it. We have to work it out — not only here in Parliament, where we must develop attitudes and laws that will earn respect, but in the labour movement and the business world, where private interests and the processes of bargaining must be reconciled with a regard for the public interest. As the House is aware, the Government asked the Economic Council, which is representative of all the principal economic groups, to study the interrelationship between prices, costs, productivity and incomes and to review policies and experiences of other countries in this field. The report on this subject is expected from the Economic Council late next month and the Government plans to refer it to a Parliamentary committee for detailed consideration.

PAY RAISES MUST BE MODERATE

As for guide-posts, certain elementary considerations are self-evident. To achieve full stability of our consumer price level would require that our average increases in incomes *per capita* in Canada would have to be limited to about our overall increase in productivity. To maintain the degree of price stability that we have had on the average over the past ten years it is evident from our productivity performance

that we could not have increases in average incomes of more than 4 or 5 per cent a year. These facts of economic life are some guide in themselves. Yet the typical increases taking place in money incomes in recent months have been in excess of this. Many current demands are much more. Many employers will have to grant large increases in the next few months simply to keep their men. We shall have to do so in certain categories of the public service. But somehow we must get back as soon as we can to more reasonable increases — average figures that do not exceed what I have mentioned. Some can of course be larger, as long as the average remains within reason.

What is needed, I feel, is a widespread understanding of the situation by the public, by business, and by individual workers. Management, on its part, must make a special endeavour to keep prices down in order to dampen down and help bring to an end this spiral of price and wage increases. It would be helpful if some industries were to give the public the advantage of increasing productivity by reducing prices. In my view the advantages of increased productivity should not accrue solely to the owners and the employees but to the consumers as well. Success in this endeavour will no doubt require hard bargaining, a squeeze on profits, and some risks of strikes — strikes which may cause some harm both to private interest and the public interest. Employees who are being asked to restrain their wage demands in the general interest as well as their own long-term interest have a right to expect that those whose remuneration and gains are derived from sources other than wages are making their due contribution to economic stability.

Labour has its responsibilities as well. Present wage demands reflect, as we know, the views and desires of the workers, not just those of trade-union leaders. The workers themselves must recognize what is possible in total — otherwise they will hurt one another. In the national interest, demands should return to more realistic levels — levels that do not force up the prices which other workers must pay.

Only by more than normal resistance to excessive price increases and wage demands can we get back to rates of increase in prices, wages and profits that will permit continued economic growth at a high level of employment with reasonable stability. Here an alert and informed public opinion can play an important role, as well as those directly involved.

INTERNATIONAL COMPETITION

Some restraint upon increases in prices and costs in Canada will arise from competition between Canadian producers and producers in the United States and other countries. But prices and costs are increasing in overseas countries and, to a lesser degree, in the United States, and their governments are concerned to restrain the increases and avoid inflation. We cannot rely upon their efforts to protect us against price increases — the effects of international competition work too slowly. Moreover, Canadian prices and wages have been rising more rapidly recently than those in the U.S. and our price problem does not arise primarily from what has happened there, although

the quickening of the U.S. economy this year has had a noticeable effect on our trade and the level of the total demand on the Canadian economy. We have to do our share to restrain the widespread inflationary forces now at work in most of the Western industrial nations.

It is evident from what I have said that we cannot solve the problem of inflationary pressures now by government control or by establishing now some specific guide-posts to be observed in making price changes and wage settlements. Over the longer term, we may be able to develop a persuasive type of incomes policy that takes properly into account the particulars of individual cases, but that requires a lot more work and a much greater consensus of view than we have yet developed in Parliament, in business or in labour circles. In the meantime the Government can and will try to do what it can to moderate the general rate of increase in costs and prices by persuasion and by example of dealing with its own operations. The Seaway increase of 30 per cent over two years and the railway increase of 18 per cent are not to be regarded as examples for this purpose.

MONETARY AND FISCAL POLICY

Apart from what can be done by example and persuasion, the chief instruments now available to us are those which influence total demands on the economy — monetary and fiscal policy. We have used these in the past year to restrain total demand. The expansion of the money supply and bank credit has been held in check and interest rates have risen in response to insistent demands for credit. Budget measures have been brought in to increase tax revenues and induce the deferring of private expenditures. In the Budget we increased our federal personal income taxes by about 9.5 per cent on the average — largely reversing the reduction of the previous year, except in the lower incomes. We reduced capital-cost allowances temporarily — increasing our revenues from business and providing an incentive to defer capital expenditures. We imposed a temporary and refundable tax to force some postponement of business expenditure without adding significantly to cost. We gave advance notice of the reduction and removal of the sales tax on production machinery and equipment as a further inducement to defer capital spending.

We made clear it was the purpose of these measures to slow down the rate of increase of business and consumer expenditures, stretch out our prosperity and sustain our economic growth. These measures were clearly of the right kind. They have worked. They have been approved in Canada and elsewhere — for example, recently by the authoritative Federal Reserve Bank of New York, which commented that "Canada has clearly made a major effort to adapt general monetary and fiscal policy to the requirements of a strongly stimulated economy and has, in the process, broken new ground in the development of flexibility in fiscal policy".

IMPORTANCE OF SAVINGS

It is now evident, however, that the total effect of our monetary and fiscal measures has not been enough

to keep the total increase in the demands on the economy down to the objective set in the Budget. I think the monetary policy of the Bank of Canada has been well conceived and skilfully applied, despite the very difficult circumstances with which it has had to cope. But I think that we in Canada, and other countries as well, have left too much to be done by monetary policy. This has resulted in conditions in the capital and money markets which are now so difficult and abnormal that they may impede the smooth and efficient flow of savings into productive investment. A larger flow of savings would help to meet the situation. Savings are a most important aspect of the fight against inflation. Canadians, either as individuals or through corporations, lay aside a good proportion of their earnings for future use. Our overall rate of savings compares well from year to year with other countries. In this present situation, an increase in corporate and individual rates of savings would serve both to moderate the level of demand and to reduce the pressure in capital markets. As one means of encouraging individuals to save, we shall shortly be offering a special centennial issue of Canada Savings Bonds.

It is clear we should strengthen our fiscal policy so that it can carry a greater share of the load of restraining the excessive growth in demand now taking place. Ordinary budget considerations lead to this conclusion as well as the present economic circumstances. In the Budget in March, after taking into account the tax changes then proposed, I anticipated budgetary revenues this year of \$8,300 million, excluding the yield of the refundable tax. Our budgetary expenditures I forecast at \$8,450 million. This left a budgetary deficit of \$150 million. In terms of the national economic accounts, I forecast a surplus of some \$615 million, including the refundable tax yield.

Our latest estimate for our revenues this fiscal year shows them at approximately the same level as forecast in the Budget. The yields of some items, such as corporation income tax, are down slightly below the forecast, while others are up enough to offset these.

On the expenditure side, it is harder to make a revised forecast at this stage until we know the timing of some of the changes that are under way. Parliament has not yet decided on what date the supplementary old-age pensions which were announced early in July will come into effect. As is now widely known, we shall have to face some increase in pay for the armed services and, I should add, in veterans' disability pensions and veterans' allowances. It is too early to forecast just what these will mean in this current year. I should think, however, it would be prudent to anticipate a total of \$8,600 million in budgetary expenditures, quite apart from the supplementary old-age pensions. Consequently, we now anticipate a budgetary deficit of about \$300 million and a corresponding reduction in the surplus on the national economic accounts basis.

The development in the economic situation since the time of the Budget indicates the need for a stronger fiscal policy, taking into account what I have said about the excessive reliance on monetary policy.

SPENDING CUT-BACKS

It was indicated in July that revenue measures would have to be considered to meet the burden of the supplementary old-age pensions. I have reached the conclusion that when these pensions are enacted, it will be necessary to increase taxes or to introduce new taxes to meet our total requirements and to prevent the Government's own increasing expenditures from having inflationary effects.

When we have before us, perhaps in late October, the measures to authorize the increased revenues made necessary by the supplementary old-age pension plan, we shall be able to review our general fiscal position and consider what changes are desirable in the light of the economic and financial situation. Until that time I shall not endeavour to be more precise as to magnitudes or announce any decision as to the nature of the measures that would be most appropriate.

In order to keep future tax increases to a minimum, and still contain the inflationary pressures, the Government has decided that it must moderate the rate of increase in expenditures, deferring some programmes already planned, terminating others, and putting restrictions on still others. We are having a long and painful review of these expenditure programmes with this in mind. One of the decisions taken was to discontinue the winter house-building incentive programme, which now does not appear to us as necessary, since the same effects in regard to the volume of construction in the winter can be obtained through suitable control of the direct lending by the Central Mortgage and Housing Corporation. While the Government is strongly in favour of increasing grants for research as a basic long-term policy, we shall have to exercise more restraint in the rate of increase this year than we had hoped would be necessary. The scholarship programme, which it had been our original intention to introduce this year, will be deferred. I think the essential needs at present can be met from our student-loan programme on the one hand and the extensive provincial student-aid programmes on the other. The agreements with the provinces for support of certain forestry programmes expire next March, and we have decided they should not be renewed, as we feel the provinces are quite able to carry this on themselves. We are seeking to hold down the size of the defence budget despite the inescapable increases in pay and in the prices of what we have to buy. We shall continue to restrict our capital expenditures, although this will mean some slowing down in a number of desirable programmes and postponement of good projects.

MEDICARE POSTPONED

We have decided that we must defer the commencement of one major programme that is already before

House. Many of the provincial governments have indicated that they feel we are attributing too much urgency to the introduction of full medicare programmes right away, and they do not feel prepared to proceed to put such programmes into effect next summer as provided for in the bill before the House. We therefore propose to defer the effective date of the plan for a year, until July 1, 1968. The legislation will be proceeded with in the House as a high-priority item when we reassemble at the beginning of October. The Government has no intention of changing the substance of the bill other than its effective date.

Obviously, this decision on medicare was a difficult one for this Government to make because we have been, and remain, so strongly in favour of this major social reform. We feel, however, that the delay will help to meet the immediate financial problems of both the federal and provincial governments and contribute to the ultimate success of the programme.

The provinces and the municipalities have been increasing their expenditures as well as the Federal Government, including, of course, their very large expenditures on education. They face just as great demands as we do for increased services and facilities and they have been sharing with us the unpleasant necessity of increasing taxes. It is certainly desirable that we and the provincial governments should harmonize our policies in expenditures, as in fiscal policies generally, taking due account of priorities and economic circumstances. I shall, of course, be discussing these matters, and others, with provincial representatives in the Tax Structure Committee next week. The provinces have made it clear that they need and want more revenue and would like us to reduce our taxes so that they can increase theirs, as we have done for a number of years past. Our present economic situation and our foreseeable federal financial position do not permit such action on our part now. Discussions of our problems and policies, as well as the general fiscal and economic outlook, are necessary before we all make our plans for next year, to be submitted to Parliament and the legislatures, including the main fiscal arrangements between us for the five years commencing in 1967.

It is to our fiscal policy, therefore, that we must look for some further assistance in restraining during this boom period the excessive total demands upon the economy that are currently making possible and in part bringing about the increases in costs and prices that are causing concern to...very many Canadians. This is not an easy answer nor a very welcome one to those of us who must take action to cut back expenditures or increase taxes. Higher taxes are cold comfort to those troubled by higher prices, but they can help prevent prices going up more and more. I can assure the House that, if higher taxes are necessary, they will be proposed with a careful concern for ability to pay....

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