should be, and that they will make a contribution to this committee. I hope that any subcommittees or commissions appointed to carry out the work of the National Capital Commission after receipt of the committee studies, will be representative of all regions of Canada. If we are going to build a truly national capital we must use the history of the country to do so. Regionalism must go by the board, and pride in our nation as a whole must be the substitute for partisan politics.

Some hon. Members: Hear, hear!

Mr. Deputy Speaker: Is the House ready for the question?

Some hon. Members: Question.

Mr. Deputy Speaker: Is it the pleasure of the House to adopt the said motion?

Some hon. Members: Agreed.

Motion agreed to.

Mr. Sharp: Mr. Speaker, perhaps your view of the clock is not quite the same as mine, but could you call it six o'clock?

Mr. Deputy Speaker: It being six o'clock I do now leave the chair until eight o'clock tonight.

At 5.45 p.m. the House took recess.

AFTER RECESS

The House resumed at 8 p.m.

THE BUDGET

FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. John N. Turner (Minister of Finance) moved:

That this House approves in general the budgetary policy of the government.

He said: Mr. Speaker, this has been a tough budget to prepare. In working on it I have talked with and, more importantly, listened to a lot of people in all walks of life. Many members of this House have been helpful and generous in their advice. A budget is, of course, an economic document. In it a minister of finance should give an accounting to the country of the existing situation and propose his ideas for the future. But it also must be a human document. If its policies are to succeed, it must strike the right note and take into account the mood of the country.

When I brought down my budget last November I warned of the grave risks arising from the uncertain and precarious state of the world economy.

During the intervening seven months, the situation has become more difficult. The decline of world economic activity has turned out to be more severe and prolonged than we or anyone else anticipated.

At the same time the underlying problem of world inflation remains. The rate of change of prices in a number

[Mr. Hopkins.]

of industrial countries has slowed significantly in the early months of this year, but there is a danger that inflation will re-emerge when the tempo of world economic expansion is restored.

[*Translation*]

The world recession has put a brake on our own economy and we have thus been compelled to scale down our projections for Canadian economic growth this year. But we have escaped the full impact of the deep recession in the United States. To a significant extent this is the result of the expansionary policies we have followed in the past, the effects of which are still working their way through the economy. Recent public opinion surveys suggest that most Canadians feel today that they are better off than they were a year ago. The disposable income of the average Canadian remains high. But we must look down the road to see the terrain that lies ahead. We have experienced a considerable increase in our costs in the last several months. This acceleration of our costs if it continues, poses grave difficulties for the future.

We are now faced with a dilemma. If we follow more expansionary policies at this time we run the risk of making inflation worse. If, on the other hand, we follow contractionary policies, we risk worsening unemployment.

In my November budget I spoke of the need for a national consensus about what various groups can safely take from the economy over the next few years. If such a consensus had emerged by now we would have been faced with a less difficult policy choice.

Since a consensus has not been reached, the government has had to examine a wide range of other options for dealing with the problems of inflation and unemployment. I propose to describe them fully. It is most important that the people of this country understand the nature of the economic problems which confront all of us and the hard choices which have to be made.

[*English*]

At the same time we are confronted with major problems in the field of energy. We are fully conscious of the short-term adverse effects of a sharp increase in the domestic price of oil and natural gas. We are, however, faced with a growing dependence on imported oil. We have to recognize the long-term need to develop new sources of supply in Canada and to promote greater economies in the consumption of these scarce resources.

Faced with these conflicting requirements in dealing with inflation, unemployment and energy, I have had to strike a careful balance in the choice of policies. Taking into account the climate of opinion in the country, the government must give a lead that will enable us to improve our economic performance. The faster rise of costs in this country than in the United States is casting a shadow over our economic future. Should this trend continue our prospects for the expansion of output, employment and real incomes will be endangered. Dealing with this inflation problem without adversely affecting our immediate employment prospects constitutes the heart of this budget.

International Developments

I should like to begin my review of the situation by referring to a number of developments on the international scene.

One of the brighter aspects of the global picture over the past several months has been the success of the international monetary system in coping with massive balance of payments problems created by the quadrupling of world oil prices. To date at least, the process of adjustment has worked much more smoothly than most observers had expected.

We are not out of the woods yet. Although the collective deficit of the oil-comsuming countries will be a little smaller this year than it was in 1974, large imbalances will continue. Unfortunately, the over-all deficit of the less-developed oil-consuming countries will be significantly larger this year than last, even if there is no further increase in oil prices. In these circumstances, wealthier countries will have a larger role to play in ensuring that financial help keeps flowing to countries facing the greatest difficulties. For the people of some of these countries, it's not just a question of austerity. It's a question of survival.

● (2010)

We made some progress this month at the meeting of the Interim Committee of the Board of Governors of the International Monetary Fund—although not as much as I should have liked. We are seeking to resolve important issues in the working of the international monetary system. It is urgent, particularly for the developing countries, that we settle the interconnected questions of Fund quota increases, the use of gold held by the IMF and the exchange rate arrangements that members of the Fund should observe. The settling of these issues would facilitate several promising plans for opening further channels for the flow of assistance to developing countries. The settling of these issues will also permit the Committee of Ministers to tackle its principal continuing task. This task should be to maintain a surveillance over a volatile international economy and to achieve the essential co-ordination of national economic policies.

This can be done only by the collective political will of responsible ministers. Economics is too important to be left to economists. The choices to be made are essentially political decisions.

I have spent a good deal of time on behalf of Canada in the international sphere. It was time well spent. We Canadians depend for our prosperity on international trade and a stable world. Moreover, the economic posture I will announce tonight owes something to the insights I have received from my colleagues from many nations.

Countries of the Third World are themselves seeking new ways to improve their longer-term growth and development. Canada is prepared to join them in seeking out the areas where progress can be made. We believe that this search should encompass new measures to assist these countries in expanding their economies and raising the standard of living of billions of people. We are looking at the ways of financing international trade and of helping them expand their exports and increase their export earnings. But these new initiatives must be firmly based on economic realities, not empty rhetoric.

[*Translation*]

In many countries the economic slowdown has generated pressures for increased trade protection. Producers inevitably seek to insulate themselves from the sharper winds of international competition. Fortunately, most governments have resisted the temptation to resort to new restrictives trade policies. At the recent Ministerial meeting of the Organization for Economic Cooperation and Development, member countries reaffirmed their pledge against the use of trade restrictions in dealing with their balance of trade problems. Canada supported this extension of the pledge. We believe that if we can abstain collectively from raising new barriers to trade, we will all be better off.

The multilateral trade negotiations underway in Geneva offer the possibility, both of more liberalized trade and a more effective use of our resources. The negotiations are far-reaching. They will cover non-tariff as well as tariff barriers, and agricultural as well as industrial products. Canada is playing an active part in these negotiations.

At the same time, we are moving to strengthen bilateral economic relations with our major trading partners. We continue to place the highest priority upon the maintenance of our longstanding network of commercial and economic relations with the United States. But we are now trying to establish new and stronger economic links with other countries, particularly with Europe and Japan. The responses to the Prime Minister's initiative for establishing new relations between Canada and the European Economic Community have been most encouraging.

I should also report that I was particularly impressed during my recent visit to the Middle East by the opportunities there for new business. I have already urged Canadian businessmen to do more to take advantage of the rich and rapidly growing markets in that part of the world.

[*English*]

One of the most unfortunate of international developments has been the slide of the United States into the deepest and most prolonged recession since the war. The sharpness of the U.S. decline has been unexpected. This has adversely affected the performance of the industrial world. About 15 million people are now unemployed in 24 OECD countries. Partly as a consequence of this industrial recession, inflation rates have receded somewhat from the very high rates of 1974, particularly in the United States, Germany and Japan.

As the recession has deepened, the prospects for the future have been scaled down. Last December the OECD was forecasting real growth of 0.5 per cent for its 24 members in 1975. Now, in a sharp reversal of that earlier forecast, it is anticipating that total output will decline again this year. While it is widely expected that the U.S. economy will begin to move out of recession in the latter half of this year and some of the other major OECD countries by year-end, there is much less agreement about the strength and speed of the recoveries. The view most generally expressed is that a considerable shortfall of output and high rates of unemployment will extend well into 1976. For some countries the immediate outlook for inflation is encouraging because of falling of some world commodity prices, prospects for good harvests, and considerable success in bringing costs under control. But in other countries the immediate outlook for inflation is much less promising.

The Canadian Economy

It is against this international background, Mr. Speaker, that we must assess the state of the Canadian economy and the risks that we face.

We should begin by recognizing the extent to which our recent economic performance has differed from that of the United States. As I pointed out earlier, the United States is going through its deepest recession of the postwar period, with an absolute decline in real output of over 7½ per cent since the peak at the end of 1973. On the other hand, Canada has experienced an absolute decline in real output since early 1974 of only 2 per cent. While unemployment has risen in Canada, it remains more than two percentage points below that in the United States.

It is difficult to disentangle the factors which have helped to shelter us from the deep American recession. In part, this resulted from the nature of the preceding world-wide expansion. Food and other primary products are very important in Canadian output, and the high world demand and exceptionally high prices for these commodities gave a strong impetus to Canadian incomes. Our position as a major oil producer enabled us to protect ourselves from the full shock of the increase in world oil prices. There has also been a stronger and more sustained increase in business investment in Canada in recent years, an expansion which has been encouraged by our manufacturing incentives. The rapid growth in employment, the increasing number of families with two or more pay-cheques, the indexing of personal income taxes, the increase and indexing of social security benefits—all of these have contributed to the expansion of income and expenditures and the confidence of Canadian consumers.

More recent expansionary policies in Canada have also helped to buttress the economy. Our measures of last November, which preceded the change in U.S. economic policy by several months, provided a significant stimulus. They have been supported by unemployment insurance and other features of our taxation and welfare system which automatically cushion the economy in periods of declining income. Further strong stimulus has been provided by the provincial budgets introduced in the spring. We estimate that their cash requirements will be up by something of the order of $1½ billion this fiscal year. The general stance of monetary policy since the end of last summer has also helped to cushion the temporary weakness of demand. All of these factors and policy initiatives have helped to maintain spending, employment and confidence in Canada at higher levels than in the United States.

[*Translation*]

The fact remains, however, that the world recession has had a dampening effect on economic activity in Canada by restricting the growth of our exports. This is the main reason why our real output, after peaking in the first quarter of 1974, was virtually unchanged in the second and third quarters, and has declined somewhat since. At the same time, the volume of our imports has grown rapidly due to the continued expansion of domestic demand in Canada. While the prices which we received for our exports continued to increase in the first half of 1974 more rapidly than the prices of our imports, more recently the terms of trade have moved against us. As a result of all these factors, the current account deficit reached over $6 billion at annual rates in the first quarter of 1975.

Certain sectors of the Canadian economy have been particularly hard-hit. While automotive sales have held up reasonably well in this country, the severe contraction of demand for North American vehicles in the United States has led to a major reduction in Canadian automotive production for sale in the U.S. market. The sharp decline in U.S. residential construction, which provides the most important single market for Canadian lumber, has severely curtailed demand for exports of wood products—a problem compounded by the decline in our own housing activity. Exports of a number of other primary commodities have also been cut back because of declining foreign demand.

Residential construction has been the major domestic source of weakness in the economy. The record levels of activity reached early in 1974 could not realistically be maintained. It was also to be anticipated that rising interest, land and building costs would lead to some scaling down of new housing starts. The decline, however, was sharper than we foresaw, with the number of starts reaching a low point in March before rebounding in April and May. The fall in residential construction has resulted in a decline in demand for a wide variety of household furnishings and appliances.

Business capital investment has continued to expand as work goes forward on projects that have already been started. But we must face the fact that the current economic slowdown, sharply rising costs and falling profits seriously jeopardize the continued strong growth of new productive capacity needed to increase output, employment and real incomes in the future.

The slowdown of the economy did not begin to have a marked impact on the creation of new jobs until the turn of the year. So far, employment has been relatively well maintained, but the number of Canadians without jobs has risen substantially as a result of the continuing rapid growth of the labour force. We need strong employment growth to get unemployment down. The key to this is a better performance on costs and prices. We have to remain competitive to sell, and sales are the only guarantee of jobs.

● (2020)

[*English*]

Up to now, Canada's price performance has compared reasonably favourably with that of most of the major industrial countries other than Germany. I have already noted that consumer prices in most countries have been rising less rapidly in recent months. The annual rate of change in Canada for the three months ending in May was 7.1 per cent compared with nearly 15 per cent in the three months ended in December. But these comparisons mask the reality of underlying developments in our cost-price structure. Wholesale prices are already moving up more rapidly again. The fact is that we have been building serious cost increases into our economy which threaten to

[Mr. Turner (Ottawa-Carleton).]

erode the competitive position of our industries both at home and abroad.

The major cause of this increase in costs has been the accelerating rise of wages and salaries, which account for some 70 per cent of our total national income. It is quite true that the rate of wage and salary increases in Canada has been exceeded in many industrial countries overseas. But we can never forget that the United States is our major competitor and our major market, buying and selling some 65 per cent of all the goods we export and import. And it is in relation to the United States that our competitive position is being most seriously undermined.

Mr. Speaker, some supplementary material that I shall table later provides a detailed picture of wage and salary developments in Canada and the United States. I recognize fully the defficulty of making precise comparisons of this kind. The preponderance of the evidence, however, is that wages and salaries, whether fringe benefits are included or not, are rising much more rapidly in Canada than in the United States.

In spite of this more rapid rise in wage and salaries, the increase in labour costs per unit of output has been only moderately higher in Canada than in the United States because productivity declined much less in Canada than in the United States. As the U.S. economy begins to pull out of its present deep recession, however, it is likely to experience a much greater improvement in productivity than our country. Under those circumstances, the gap between our unit labour costs and those in the United States will progressively widen and our competitive position progressively deteriorate.

It is perhaps not surprising that wages and salaries in Canada over the past several months should have been rising more rapidly than in the United States. Like the increase in our current account deficit, that is a consequence of the relatively much stronger performance of the Canadian economy since the beginning of last year. What is surprising and disturbing is the size of recent increases in Canadian wages and salaries and their continuing acceleration in a period of slow growth and high unemployment.

I very much understand the concern of working men and women everywhere to maintain and improve their standard of living. It was natural that they should have pressed for increased wages and salaries when faced with rapidly rising costs for almost every purchase and when corporate profits were apparently soaring to record levels. But the increase in corporate earnings, much of which was generated by temporary and illusory gains from inventory profits, has been sharply reversed during the past six months. The share of wages, salaries and supplementary labour income in the national output declined significantly in the earlier stages of the inflation, but the balance has since been fully restored. Wage and salary increases are now running well above the increase in the cost of living. These increases in large measure reflect the effort to restore or improve relative positions, and the widespread fear and expectation that inflation will continue or even accelerate. But a number of recent wage and salary demands appear to bear little relationship to economic reality.

There are some who believe that the surge of wage and salary increases has crested and that we can now expect a substantial reduction in the rate at which we add to our costs. I very much hope that this will be the case, but there is little evidence yet that it is happening.

There are others who point out that we have a flexible exchange rate and if our cost increases continue to exceed those of our major trading partners, our resulting competitive disadvantage can be overcome by a depreciation of the Canadian dollar.

The weakening of our balance of payments has already produced some depreciation. But a continuous depreciation of the Canadian dollar over any length of time is no substitute for bringing the spiral of our costs and prices under control. Indeed, it would aggravate the inflationary process by driving up the prices of the billions of dollars worth of goods and services we buy from abroad. Further, depreciation of our dollar raises the domestic prices of some products which we both export and consume at home. Unless we as a nation are able to conduct our affairs in a way that will maintain confidence at home and abroad in the soundness of our economy, we risk paying a heavy penalty in terms of lower capital investment, lower output, lower employment and lower real income.

Thus we are brought back to the central question of the emerging trend in cost increases.

If the rate of increase in our costs does come down, we will be able to look forward to a sustained expansion of output and employment, supported by the major new investment projects which lie ahead of us. But I cannot overlook the danger that our costs may continue to rise both in absolute terms and relative to our major trading partners. In that event, growth and employment will be impaired. The outcome will depend on whether we are moderate in the claims which all of us will be making in the coming months.

[*Translation*]

Policy Choices

Let me discuss now the question of policy. In doing so, I recall that my first words to this House as Minister of Finance were that my most urgent priority was jobs. I continue to believe that our greatest challenge is the creation of productive and satisfying jobs for the rapidly growing numbers of Canadians who want to work. One million more Canadians are at work today than when I took this office. But statistics alone are not a measure of human fulfillment. This achievement must be measured by the new opportunities for our young people to pursue their chosen careers, for students to help pay for their education, and for increasing numbers of women to enrich their lives in a meaningful way.

The policies of this government have played a crucial role in making this happen. We have used fiscal and monetary policy, but have never believed this alone to be sufficient. We have stressed the necessity of a high level of business investment and encouraged it by tax incentives and a wide variety of other policies. We have launched new direct employment programs. We have broken new ground in the training of workers and in aiding those who have had to move to other parts of the country where jobs are available. We have introduced large new programs of regional development to bring jobs to people.

Today the task of job creation is made immeasurably more difficult by inflation. In its present cost-push form, inflation threatens to price our goods out of world markets and to lessen the capacity of our business firms to expand their operations. It disrupts financial markets and impairs rational planning by business and government. It undermines the effectiveness of the traditional instruments of demand management policy to keep the economy on course. When inflation reaches a certain point, the stimulation of spending may simply lead to higher prices rather than more goods and more jobs; in the longer run, it actually makes unemployment worse.

Not only that, but inflation ultimately inflicts grievous damage to the fabric of society. It lowers the living standards of those on fixed incomes, including pensioners. It leaves people without reliable, understandable guideposts by which to arrange their economic affairs. It injects grave uncertainty into decisions on family budgets, housing, savings and provision for old age. It provokes deep frustration, social tension and mistrust of private and public institutions. Collective bargaining is embittered. Industrial relations are damaged. We in Canada are already beginning to live some of these experiences.

During the past few months, I have had the opportunity to talk with many people all over the country—from labour, from business, from our farms, from the professions. I have found a widespread understanding of the risks to our country from persistent inflation. I now wish to share with the House and with the people of Canada the government's thinking as it has developed in the course of the consultations and during the intensive review we have conducted in recent weeks. If we are to find a way out of our present difficulties, no single step is more important than to promote the widest possible public understanding of our problems and the real choices which we have to make.

Among the various policy options open to us, there is one which this government has rejected, and rejects again, in the most categorical manner. This is the policy of deliberately creating, by severe measures of fiscal and monetary restraint, whatever level of unemployment is required to bring inflation to an abrupt halt. Such a course of action would be completely at odds with my own instincts. The cost would be much too high. The hard-won sense of security in our society would be replaced by a sense of fear and anxiety, and the cost in terms of lost output and lowered standards of living would be unacceptable. In human terms for me it would be unthinkable.

● (2030)

[*English*]

It was because we rejected this course of action that we launched the series of consultations with the leaders of labour and business, provincial governments and many other groups and associations in the country. Our objective was to seek a better solution to inflation and slow growth. We sought a consensus on a new framework to govern the setting of incomes and prices in a manner which would be fair to all.

[Mr. Turner (Ottawa-Carleton).]

Members will recall that my parliamentary secretary—and at this stage I should like to pay tribute to him as an outstanding member of parliament.

Some hon. Members: Hear, hear!

Mr. Turner (Ottawa-Carleton): The hon. member for Sarnia (Mr. Cullen) has been invaluable to me in the discharge of my duties in this House and in the country. He tabled in the House the report I gave on this subject to the conference of first ministers. Let me now summarize the impressions we gathered from the whole series of meetings.

First, all those who took part in these meetings gave generously of their time, often at short notice. They spoke frankly about what worried them. They gave their opinions constructively. They helped me and my colleagues a good deal and I want to thank them.

Second, those who joined us at those meetings welcomed the opportunity to exchange views with the government on problems and policies. I think they have learned more about the problems we are facing. Certainly, my colleagues and I have greatly benefitted from hearing their views. We must find ways of keeping these channels of communication open and I intend to do so.

Third, there is now, I believe, a clearer understanding in the country of the fact that if each and every group tries to improve its position by pushing up its own money income, the total effort in the end is bound to be self-defeating. If Canadians generally come to recognize that moderation and restraint are in the interest of everyone—that will in itself dampen inflation. The most useful result of the consensus exercise has been increased public awareness and understanding.

Despite these positive aspects, consensus on a set of voluntary guidelines has not been reached. The impression was created that this has been due to an inability to formulate a set of proposals that were fair and equitable. I believe this is not so. The proposals were evolving, and I think we were on the way to rounding them out in a manner which would have met the main concerns of the various parties. But we had to struggle against a persistent doubt whether the voluntary guidelines would in fact be followed. Each group feared that others would be less exposed to the force of public scrutiny or less able to commit its membership. There was a general concern that the burden would not be shared equally.

Faced with the deadline of a budget and in the absence of a consensus, I had to consider other options.

We gave careful consideration to the imposition of statutory controls over prices and incomes. In contrast to the situation in 1973 and 1974 when our inflation primarily reflected international forces, and controls couldn't possibly have worked, we are now faced with escalating domestic costs in an under-employed economy. In these circumstances, controls could provide the most direct response to the problem. Thus, unlike our position on severe monetary and fiscal restraint, we did not reject controls in principle. Indeed, in one respect, they would have had an advantage over a voluntary consensus. By using the powers of the law to make all groups obey the rules, each would have had the assurance that all would be making a contribution.

But there would have been—and are—immense difficulties and disadvantages in such a course of action. Government would have to interfere in every type of business decision and wage settlement. To a far greater extent than in a voluntary program, a new bureaucratic apparatus would have to be set up. New types of inequity would be created. The flexibility of the market economy in directing resources where they are most needed would be impaired. Dislocations would occur.

These costs would be worth paying if direct controls could be successfully imposed. If this were the case, we might well achieve lower price and cost increases without higher unemployment. But the success of such a program would depend crucially on widespread public support. As I have said before, I believe that we can resort to direct controls only when there is a public conviction of the need for such action. That point has not been reached.

As another option, we looked at several alternative ways of using the tax system as a method of controlling prices and costs. We examined the possibility of taxing away all increases in income in excess of specified amounts. We came to the conclusion that this would provoke administrative nightmares, create massive inequities and yet would not ensure that the inflation of costs and prices would be effectively brought under control.

The policy I have chosen is to use our powers over taxation and spending to create the climate and set the example by which I believe we can still meet the interrelated problems which confront us. I would remind the House that the stimulus of the measures taken in the November budget was reflected in my forecast of cash requirements amounting to $3 billion. Because of the slowdown in the economy, and its unavoidable impact on tax revenues and social security payments, I now expect that our requirements will be in excess of $5 billion. I do not believe that this amount should be further increased. I believe there is enough stimulus already injected into the economy. There are, however, some areas in which further action is imperative. I will be announcing certain measures tonight to sustain business investment, to assist housing and to create jobs. But as I have said, our goals would not be served by a further net injection of demand. The government cannot underwrite—or appear to be underwriting—ever higher rates of inflation by further expansionary policies. It would be no service to the people of Canada to hide the underlying reality that unrestrained demands for higher incomes will sooner or later mean fewer jobs and lower living standards.

A further reason for not increasing the over-all expansionary thrust of our policies is that much of the slack in the economy is concentrated in our export industries. In spite of our best efforts to promote export sales, we cannot stimulate general demand in the economies of our trading partners. We can only try to check the deterioration in our international competitive position.

On the other hand, since unemployment is already too high, I do not see any justification for weakening the expansionary thrust which is already in place.

I have therefore decided to stay on our existing fiscal course in terms of our cash requirements and their impact on the economy. Within that framework, however, it is essential that the government should exercise greater restraint over its own spending. I will therefore be announcing a series of measures the government is taking to limit its total outlays and to reduce their growth over the longer run.

● (2040)

One thing we have learned from our meetings with labour and business was that if we expected restraint from the country, the country expected restraint from governments. We are determined that this budget shall show clear leadership in the exercise of moderation and restraint. We will thereby add force to our assertion that Canadians generally will have to moderate their individual claims against the economy if we are all to enjoy the benefits of a sustained expansion in output and employment.

[*Translation*]

The Control of Government Expenditure

I come now to specific measures. None is more important than the control of public expenditure. The outlays of the federal government, both budgetary and non-budgetary, have risen rapidly in recent years. So have the outlays of provincial governments. This rapid rise has occurred in response to insistent public needs and public demands. It has contributed to the achievement of the whole range of our objectives, economic, social, cultural and international. It has been mirrored in the experience of countries around the world. But the portion of the national income spent by governments on goods, services and transfer payments, and financed by taxation, has now risen to levels previously reached only during the Second World War. This rise is now causing concern in our inflationary environment. The competition for shares of the total national income has become intense. The government proposes to set an example of restraint in this regard by imposing strict control over its activities and programs.

Our budgetary expenditures and our loans, investments and advances this year are already coming under severe upward pressure, as a result of inflation, the growing cost of our statutory programs and the new programs and new commitments which have been pressed upon us from all sides. Unless we act now, the estimates I gave in my last budget will be exceeded by many hundreds of millions of dollars. Moreover, there are strong indications that the cost even of our existing programs will rise substantially further next year.

The government has therefore decided upon a wide-ranging set of measures, covering our statutory as well as our non-statutory programs, budgetary as well as non-budgetary spending, our salary as well as our hiring policies. All are directed to bringing outlays under more effective control and to slowing down their rate of growth this year and into the future. Our target of cuts this fiscal year is $1 billion.

[*English*]

The first element in this strategy has been a careful scrutiny of all non-statutory programs authorized in the main estimates of expenditure or subsequently approved by the Cabinet for submission to Parliament. Under the leadership of the President of the Treasury Board, we have identified a series of items which, although desirable and important, must nonetheless be reduced or postponed.

The Treasury Board has been successful in applying cuts to almost every department of government and to many of the Crown corporations. These cuts will cause distress and disappointment to Canadians in all walks of life. But they are required if we are to demonstrate responsible fiscal restraint.

Reductions totalling $100 million are being made to the planned capital expenditures of the Departments of Transport, Defence, Public Works, Environment and others.

Reductions totalling $250 million are being made in the planned grants and contributions of the Departments of External Affairs, Industry, Trade and Commerce, the Secretary of State and others.

In the non-budgetary field, planned loans, investments, and advances will be reduced by about $350 million, by cutting back on allocations and by deferring the start-up of some new enterprises. Crown corporations and agencies which will be affected include Petro-Canada, the Federal Business Development Bank, the Federal Mortgage Exchange Corporation and the Farm Credit Corporation.

Over and above these reductions, departments and agencies are being required to cut planned program expenditures by $130 million, and ministers are now directing changes in their programs in line with their reduced resources. The Treasury Board is also directing departments to restrict expenditures on travel and consultants' fees.

The second element in the strategy relates to the growth of the public service. The Treasury Board is directing departments to restrict their salary budgets. The effect of this restriction will be to reduce the rate of increase in man-years in the public service this year from 4.1 per cent to 3.1 per cent, a rate that is down substantially from the levels of six to seven per cent in each of the two previous years.

One significant exception to this plan for restraining staff growth should be noted. The Office of the Auditor General has long acted on behalf of this House to monitor and report to it on the prudence and probity with which the government has implemented its programs. The government has always recognized the vital importance of the work of the Office of the Auditor General in assuring this House, and through it the people of Canada, that the operations of the government are being conducted properly and legally.

However, the increasing complexity of government operations and financial transactions demands major improvement in the capacity of that office to scrutinize objectively and thoroughly all financial transactions and systems. The most sophisticated technical and professional judgment must be available to carry out this work. The Auditor General has submitted that he needs additional staff at the most senior executive levels to fulfil these responsibilities. The government accepts this position, and has already increased his executive complement. It will now accept a further obligation to more than triple that senior executive complement to give the Auditor General the staff he needs to do his job.

The third element of our expenditure restraint strategy concerns the wage and salary policy of the federal government as an employer. The policy of the government is to compensate its employees by way of pay and benefits comparable with those provided by other Canadian employers. The policy of comparability is a demonstrably fair one and will be adhered to strictly.

The vast majority of our public servants are represented by bargaining agents, and their salaries, benefits and conditions of work are established by collective bargaining. The government accepts and indeed initiated collective bargaining in the public service. This democratic process provides great protection against unfair or arbitrary treatment. An essential element is the legal right to strike in all but the most essential occupations. But the government is not prepared to grant increases that are unwarranted by any reasonable standard. This may lead to legal work stoppages. The resulting inconvenience to the public will have to be accepted.

Beyond this, the government cannot condone and will use every legal remedy within its power to deal with unlawful deprivation of service to the public.

The fourth element of our expenditure restraint strategy relates to the two main statutory programs in the health field—hospitals and medical care insurance. Honourable members are aware that the federal government pays about one-half of the costs of these important programs. The provinces pay the remaining half and administer the plans. Total costs this year will exceed $6 billion.

These programs have been in effect for some time—hospital insurance since 1958 and medicare since 1968. The fundamental objective of providing comprehensive hospital and medical care services to all Canadians, regardless of income, has long since been met. But even after the development of these plans as mature systems, the annual increase in their cost has on average run well ahead of the growth of national income. These costs trends are due in part to the basic nature of health care; but the statutory rigidity of the programs, the lack of national standards, and the open-ended nature of cost-sharing arrangements with the provinces has made it almost impossible to achieve effective cost planning or control. Last year, for example, federal contributions to the provinces in respect of these two programs had to be increased by 19.8 per cent over the previous year.

For several years, the federal and provincial governments have worked hard to try to devise a more flexible and efficient system to provide better services at a lower cost. This applies particularly to hospital insurance, and intensive discussions are going forward to achieve this goal.

In anticipation of a successful conclusion to these ongoing discussions, it will be necessary to amend the existing Hospital Insurance and Diagnostic Services Act and cost-sharing agreements with the provinces. Under the act, the federal government must give five years' notice before the present agreements can be terminated and new arrangements undertaken. I therefore wish to announce that the government will give immediate notice of its formal intention to undertake these steps.

A second measure aimed at more effective cost control involves the establishment of a ceiling on the yearly rise in the contributions the federal government makes to the

[Mr. Turner (Ottawa-Carleton).]