In sharp contrast to many in the opposition, the government came to the conclusion that the steadily escalating inflation which began in the mid 1960's posed a serious threat to the achievement of this objective over the long term. We were accused and continue to be accused of having a psychopathic obsession over the danger of inflation. We were accused of being prepared to sacrifice employment because of some academic attachment to price stability—as if the two were not directly related.

Let me emphasize, Mr. Speaker, that our deep concern over the problem of inflation has not reflected any lack of concern over unemployment. On the contrary, we were concerned about inflation primarily because it threatened to undermine the very foundation of our economy and thus prevent it from achieving its potential growth together with higher and more stable levels of employment.

In recent months, governments of most countries around the world have come to share our deep concern over inflation. It was one of the issues foremost in the minds in those attending the annual meeting of the International Monetary Fund in Copenhagen last September. In its annual report for 1970, published earlier in the month, the IMF pointed out that the performance of the world economy during 1969 and the first half of 1970 was marked by what it described as "severe inflationary pressures" and stressed, to use its words, "the central need for restoration of financial stability in the major industrial economies, and particularly in the United States".

• (4:10 p.m.)

During the Throne Speech debate, the Leader of the Opposition was inclined to dismiss rather scathingly the views of what he termed "international bankers" as being of no account.

Since he, himself, referred to the approach of the Organization for Economic Co-operation and Development, it is of particular interest that in its mid-year review the OECD asserted that "price inflation is an old problem which has now acquired new dimensions and a new urgency" and emphasized the need for member countries to adopt the necessary fiscal, monetary and income restraint policies to bring it under control.

A few weeks ago, the Economic Council of Canada published a review of the Canadian economy. The report pointed out that recently the growth of the economy has fallen significantly below its real potential, but it also strongly suggested that inflation was the major cause of this development.

The Council said, and I quote:

> On the whole, but with the glaring exception noted below, the performance of the economy since we started to make such appraisals in 1964 has been relatively good—certainly good in comparison with the generally poor performance in the late 1950's and early 1960's.

The glaring exception to this generally good record cited by the Council has been, in its words, "performance in relation to the goal of reasonable price stability."

Over the past several months we have made considerable progress in overcoming the glaring defect in the performance of our economy referred to by the Economic Council in its most recent report. Only last week, the Dominion Bureau of Statistics reported that for the third month in a row the year-over-year increase of the Consumer Price Index in October amounted to only 2.8 per cent. On a seasonally adjusted basis, the increase in the index since last February has amounted to 1.5 per cent at an annual rate. This record of performance surpasses that of virtually any other industrialized economy and stands in particular contrast to that in the United States, where the increase in the Consumer Price Index for September amounted to 5.6 per cent over the previous year.

As I have acknowledged many times in the past, resolving the critical problem of inflation has been a long, arduous process and it has carried its own costs in terms of a temporary moderation in the rate of economic growth.

In this context, I think it is worth recalling the observation made in the 1970 annual report of the International Monetary Fund that, and I quote:

> —the experience of industrial countries in the recent period seems fully consistent with and bears out the well-known proposition that the maintenance of financial stability in the short-run will make for a better growth and employment record over the long-run.

Despite the clamour of members of the opposition, Mr. Speaker, we have not been prepared to sacrifice long-term benefits for the economy in order to achieve short-lived illusory gains because we are convinced it is not in the best interests of the Canadian people to do so.

At the same time, however, we have been deeply anxious to see the economy move ahead toward its full growth potential as soon as, and as quickly as, this could be done without severe risk of a renewed and destructive price and cost spiral.

In my remarks to the House on October 13 during the Throne Speech debate, I outlined in some detail the steps that have been taken over the past seven months to stimulate economic growth as the inflationary pressures slowly began to recede. It is not necessary for me to reiterate now all of those various measures we have taken to stimulate a faster rate of growth of production and employment. I would like to emphasize, however, that over this period fiscal policy has progressively become strongly expansionary.

The March budget itself proposed a significant increase in the stimulus from the federal sector, providing for an increase in cash requirements over the previous fiscal year of about three quarters of a billion dollars, not including requirements to finance policy exchange transactions. Primarily as a result of expansionary policy measures adopted by the government in the interval, the cash requirement for the current fiscal year has risen to $1.3 billion, with a further $1.2 billion being required to finance foreign exchange transactions up to October 1.

On a national income accounts basis there has been a shift from the surplus for last year estimated at $648 million to a deficit in the current year that is estimated