1975. Some professionals in the private sector now predict a further increase in the rate of starts for 1976.

Let me also say a word about inventory investment. There was some evidence of disinvestment in 1975. It is anticipated that there will be a major upswing in this area in 1976. Growth in inventory investment may reach the figure of $350 million.

To conclude: generally, Mr. Speaker, the outlook for the coming year should be one of optimism. That is the thinking which I am pleased to see reflected on my side of the House. We do not support the pessimistic, confused, contradictory and aimless views on the Canadian economy held by hon. members opposite and epitomized in the motion moved today by the hon. member for York-Simcoe.

Mr. Jim Balfour (Regina East): Mr. Speaker, I want to address my remarks today to the manner in which economic policies of the present administration have failed to encourage and sustain investment in Canadian industry. I think, in dealing with a matter such as this, that it is essential to reflect on the present situation and ask ourselves why it is the way it is.

It was obvious in 1974 that Canada and its economy were in a major economic and financial crisis which was likely to worsen before it improved. Inflation during 1974 ran between 11 per cent and 14 per cent depending upon how it was measured, and for the first half of 1975 it was still running around 10 per cent. Increases in wage settlements, which in 1973 were under 10 per cent, were 17.4 per cent at the end of 1974, and 18.5 per cent in mid 1975.

● (1720)

Meanwhile unemployment rose from 5.4 per cent in 1974 to 7.2 per cent in mid 1975, strikes were causing major disruptions in the economy and exceeded one day per year for every member of the labour force, real GNP and industrial production had been falling for almost a year, and the value of the Canadian dollar had declined by over 6½ per cent during the preceding year. All in all it was a pretty grim picture, and inflation was correctly identified as the villain.

Unfortunately the government refused to recognize that this situation existed until late 1975, and then in complete contradiction to its stated policies of only a few months previous, it imposed upon Canada, as a solution, an ill-defined, hastily organized, and so far ineffectual program of wage and price controls.

Economists offer a variety of explanations for inflation, ranging from cost or price push explanations to sociological explanations. According to Lawrence B. Smith, writing in the January-February, 1976 "Tax Journal", and I quote:

> There is really only one explanation for our present inflation, namely that there has been too fast an increase in the rate of growth of the money supply. In fact the money supply, regardless of how it is measured, has been increasing at an astronomical rate for the last five years, and in 1974 alone it rose 20 per cent. In the first three-quarters of 1975 it rose at an annual rate of 17.5 per cent, and during the three months ending November 30, 1975, it rose at an annual rate of 21.9 per cent.
>
> Since real output in Canada has been increasing at an annual rate of under 3 per cent during this period, there has been annually an extra 15 per cent to 17 per cent more money available to purchase every unit of output.

[Mr. Martin.]

> Thus, either people must increase their savings very considerably or else prices must rise rapidly to absorb this extra purchasing power.

Rather than display restraint, however, the government allowed its own rate of growth and spending to sky-rocket. Between 1965 and 1974 government expenditures as a percentage of GNP rose from 29.9 per cent to 39.1 per cent or, stated differently, government expenditures rose approximately 65 per cent faster than expenditures in the rest of the economy. This type of uncontrolled spending is especially harmful because to a very large extent the financial resources for this expansion were raised internally.

By borrowing from the Bank of Canada, that is to say, by increasing the money supply, or by borrowing abroad under a fixed or managed exchange rate, the government generates inflationary pressure.

Since the Bank of Canada's holdings of government securities rose at an annual rate of 13.5 per cent over the last five years while holdings in the private sector rose at an annual rate of under 1.0 per cent, excluding Canada Savings Bonds, and since increases in the Bank of Canada's holdings of Canadian government securities were the primary way of meeting federal government dollar financing requirements, it is clear that a massive increase in the money supply financed the increase in government expenditures.

As Lawrence Smith says, and I quote:

> Consequently, in the sense that the need to finance the growth of government expenditures was a major reason for the excessive expansion of the money supply, the growth in government expenditures directly contributed to the accelerating inflation.

There are few members here who do not realize that there is one essential ingredient in all plants to start up a new business, to expand an existing one, or take on new lines, and that is capital. If we cannot find the capital for investment in productive Canadian business enterprises in sufficient quantities, in the right form and at a reasonable price, then we will simply not grow as a nation, and the miseries of unemployment, inflation, and human disappointment will certainly jeopardize our society.

There are four basic forms or sources of capital: first, savings from individuals; second, savings by business, normally in the form of retained earnings; third, savings by government; fourth, foreign investment in our country, either in the form of debt or equity.

Since we must concern ourselves with government and its effect on business investment, we must direct repeated attention to the inability of the government to save. All levels of government, as we have learned, tend to be dis-savers. All governments, and especially this government, tend to develop extravagant habits. To finance their extravangance they draw on the savings of business and individuals, with the result that these savings do not reappear in the economy in the form of capital for investment. Governments in Canada at all levels last year dissaved over 4.5 billion to finance their budgetary deficits.

Andrew G. Kniewasser, President of the Investment Dealers Association of Canada, in a recent speech said:

> Indeed, Canadians are going to have to save enough or import enough of other people's savings to finance unprecedented levels of capital expansion all over this country. The agreed figure in constant dollars is $500 billion between now and 1985, and in current dollars, close to $900 billion.