

*Restraint of Government Expenditures*

We should ask ourselves how effective the DREE program has been. It would be interesting to do a study of these programs and the industries that move from one part of the country to another. How many are still operating today? The theory behind the program was good—moving industry from an area where there was difficulty getting labour to an area where there was a surplus of labour. In fact, however, many of the industries that moved either could not find labour in the new area or were not able to train people, and ended up importing labour from their original location. DREE is something that has to be considered when we examine the effectiveness of government spending on industry, jobs, and so on in this country.

We must also look at the whole area of inflation and its relationship to the reduction of government spending. It is argued that wage demands are causing inflation but I think we should try to lay that one to rest. Wage demands are only reacting to inflation, not causing it. People do not know what the rate of inflation is going to be when their contract ends, so instead of signing a three year contract they sign for one year and try to get the most out of it.

It comes down to a matter of putting confidence back into the economy, Mr. Speaker, but the question is how is this to be done? Some people argue that increased prices cause inflation, but this is not reflected in company profits across the country so I do not think that can be called a contributing factor.

Very little has been done to reduce high interest rates and this is of very real concern to anyone who is in business or is contemplating a research and development project. The high cost of money prohibits many companies from undertaking such projects, particularly in view of the uncertainty in the economy.

The debates in this House and in committees should reflect what must be done to lower inflation, and what cuts must be made in government spending. I hope the matter will be taken to committee for thorough discussion.

Little has been said by the Minister of Finance, the Minister of Industry, Trade and Commerce, or anyone on the front benches about the relationship between the money supply and government spending. If you examine all the economic theories preached by the classical economists one thing comes through, and that is that in any country the money supply should not increase beyond the increase in the Gross National Product. In this country, however, as in most western countries, we have allowed this to happen. We have been printing vast sums of money for a number of years. Every time we do that every dollar in circulation is worth less.

● (2040)

We have run up serious balance of payment deficits and imported money from off-shore to offset those deficits. At present we face the prospect of paying about \$740 million a year interest on that off-shore money. If projections come true, because action with regard to the money supply was not taken earlier and government spending not cut back earlier, by the end of this year or the first quarter of next year we shall be

[Mr. Kempling.]

paying out interest at the rate of \$1 billion a year. As one can see, there is an important relationship between the money supply, the level of government spending, trade deficits, and industrial activity in this country.

I find most disheartening the decline in the number of active manufacturing concerns and the decline of employment in manufacturing industries, some of which, not possessing the resources for competing in the market place, have become service companies. For example, we hear of the shoe industry crying out that it cannot compete with imports, yet the largest importers of shoes are shoe manufacturers themselves. Not being able to compete with imports, such companies have cut back on manufacturing. The net result of inadequate depreciation allowances, the taxation syndrome of the last ten or 15 years, and the pressures of inflation, has been a scarcity of funds available for replacing machinery and updating plant for competitive purposes. Such companies, not being able to keep abreast of current technology, have become service industries.

Some entrepreneurs in this country have engaged consulting engineers and built turnkey plants which have been shipped overseas. I do not oppose this as I think we must share our technology with others, but I am bothered by knowing that many of the plants we have erected off-shore are more productive than similar plants operating in Canada. We end up competing with the production of those plants on world markets. That I find disturbing. We must correct this situation.

We must allow our industries a number of years in which to upgrade their facilities and expand operations. We must make available generous tax allowances and funds for research and development. We must allow our companies to acquire, either domestically or elsewhere, the best available technology, in order that they may compete and offset to some extent the very high labour rates we pay in this country.

Earlier this year when I was in Japan I recall talking to some Japanese industrialists; we were talking about labour rates, technology and like matters. Possessing few natural resources, the Japanese must import 90 per cent the resources they use in the manufacturing industry. They said to me, "We have to be better managers and use superior technology to compete on the world market." I must say they are doing an excellent job. That must be our attitude. We must use the most advanced technology available if we are to be competitive on world markets. We have the resources in this country but pay very high labour rates. In order to offset the effect of these high rates, we must use the most advanced technology possible in industry.

I sincerely hope that when the Minister of Finance brings down the budget he will consider allowing our small and medium-sized industries to accumulate money over three to five years which they can spend on research and development. I hope he will also make provision for allowing our industries to upgrade their technology and the quality of machinery in plants, for only in that way can we be more productive. Unless we do this we may face the prospect of asking workers in certain industries to take pay cuts of 25 per cent, 30 per cent, and even 40 per cent.