

both in foreign markets and in our own domestic markets. That is why those who believe that we can create more jobs for Canadians by adapting to inflation while others eradicate it are, I believe, living in a fool's paradise.

Secondly, we are advised by some to adjust to inflation by various devices to protect those who are unable to protect themselves. Admittedly, when injustices created by inflation become stark, it becomes necessary to find temporary palliatives. But I emphasize that the cure is only temporary. As a general proposition, attempts to adjust to inflation only worsen the disease and, ironically, the more successful one is in devising schemes, the more deep seated inflation becomes. Recent experience bears this out. The more people feel protected against inflation, the more they believe that inflation will continue. The more they act on the assumption that inflation will continue, the more inflation there actually is.

Worse still, some groups try to get ahead of the game by anticipating further inflation. They speed up their purchases; they demand income increases that more than offset past price rises; and as a consequence prices and costs rise even more. So-called adjustments for some become higher costs for others, and inflation becomes self-reinforcing.

Thirdly, attempts to adjust to inflation create difficulties in the capital markets. There is an extreme reluctance on the part of savers to commit their funds for long periods of time, except at very high rates of interest. It becomes more difficult for borrowers to sell long-term bonds, and governments in particular are forced to cut back on essential public investments and services, or raise taxes, or do both. Likewise, prospective homeowners needing mortgage funds are forced to pay record high interest rates, or cannot find the money at all. These then, Mr. Speaker, are some of the effects of trying to live with inflation: the unprotected get hurt, job opportunities are jeopardized and money is hard to come by for necessary social capital.

Let me turn for a moment to the causes of inflation before I outline the approach of the federal government to solving the problem. The root causes of inflation are to be found in attempts by Canadians to take more out of the economy than they were capable of putting into it. Demands of all kinds for goods and services, both public and private, were greater than our ability to satisfy them. The incomes generated by these demands of con-

*Control of Inflation and Unemployment*  
sumers, business, governments and foreign purchasers of our products were greater than the flow of goods from our economy and prices inevitably rose.

**Mr. Lewis:** I wonder whether the minister would permit a question. I observe the extensive notes he has, and I should like to ask him whether these statements are based on some research that members of Parliament will be able to see, or whether they are just assertions by the minister, to my knowledge completely out of date.

**Mr. Benson:** I do not believe that they are out of date, Mr. Speaker, and I will stand on what I say in the House of Commons.

**Mr. Stanfield:** Is the minister talking of the past or the present?

**Mr. Benson:** The past and the present.

**Mr. Stanfield:** If the minister will permit a question, is he taking the position that inflation today is due to excessive demand?

**Mr. Benson:** I am saying that we have moved into inflation through excessive demand.

**Mr. Stanfield:** That is why I asked the minister whether he was talking of the past or the present.

**Mr. Benson:** We have inflation now. Accordingly, Mr. Speaker, the higher incomes rose, the more prices increased. The whole exercise has, of course, proved frustrating, self-defeating and wasteful. The approach of the federal government has been to establish a program to restrain increases in demand to rates more in line with our underlying capacity to grow. At the same time, the government has been developing and enlarging programs to expand our capacity to produce, but this is essentially a long-term action.

In the immediate period, the main instruments available to the federal government are fiscal and monetary policy. During the past year these instruments have been employed in a way so as to restrain demands. In my budget of last June, I planned for a surplus as a means of fighting inflation. I have indicated that the surplus will be achieved; indeed, it will be somewhat larger than I anticipated. As a result, apart from Canada Savings Bonds the federal government has not been a net borrower this year. In fact, it has been a small net supplier of funds to the market.