I remember a time when, if somebody raised a price, very often he would lose his market. But that does not seem to be happening today. If you look at wage demands, you see they are starting to run at 17 per cent to 20 per cent per year; and in our economy we still have to absorb a considerable amount of the mandated energy price increases that have not been absorbed already. In addition to that, we are operating well below our potential capacity. It is true that our growth rate was high in the first quarter, but almost everybody who comments on the economy expects it to fall during the rest of the year. Our productivity increases are extremely low. Our exchange rate is under pressure. The high U.S. interest rates are the basic cause of this, but it is also exacerbated by the fact that we have no oil-sharing agreement and by our constitutional disputes.

● (2120)

As far as the exchange rate is concerned, we will probably be unhappy no matter what happens. Let us assume for a moment that it stays where it is. What we would have is an exchange rate that today is adequate for our manufacturers to sell into the export market but lower than required for the producers of primary products to sell into those export markets. As a result, when wage demands are made on those primary producers, they are not resisted in the way they are normally resisted, and they are transmitted quite quickly to other businesses across Canada. So it is even difficult to leave our exchange rate where it is. If our exchange rate falls, it contributes to greater inflation. If it rises, it puts our manufacturing industries in difficulty as far as their export business is concerned.

In addition to that, the control of the money supply is becoming increasingly stringent, and we have extremely high interest rates which are not helped by the fact that large amounts of money have to be borrowed by the federal government to finance its deficit. There is no question that the continuing stringent money supply control will contribute even more to the economic slowdown.

Roughly, that is the situation we are in today. It is a very serious and difficult situation. It is true that the Bank of Canada has been applying a restrictive monetary policy. Many suggestions have been made towards the possibility of squeezing inflation out of the economy without any pain to anybody. There are those who say, "Let us just live with inflation. As far as the distributive effect of inflation is concerned, studies show that no particular group has suffered from inflation, so why not just decide that we will live with inflation?"

The Governor of the Bank of Canada told us that the problem with that suggestion is that one can never be assured that inflation will be controlled at any particular rate. In addition, it means that as long as there is continuing inflation, more and more funds will be applied to the acquisition of assets rather than to investment in productive resources. In such a scenario longer term financing becomes increasingly difficult, as it is today with lenders being very reluctant to lend money other than on the very shortest terms.

Under such a scenario, there would be constant uncertainty about the policies of the Government and the Bank of Canada, and there would be a heightened possibility of a disastrous mistake in policy in such a climate. If we say that we are prepared to live with inflation and if inflation continues to mount, as it most certainly would, there would come a time, as historically it has always come, where it would become totally outrageous and where a disaster might well result in a total breakdown of the economy.

There are those who say, "Well, let us reduce interest rates. We will have a tight monetary policy, but we will reduce interest rates." But suppose lower interest rates were mandated through government action. In other words, the government merely says that certain interest rates will be reduced. Which segment of the economy would they choose? Whatever segment or sector that it did choose, demand would immediately flow to that sector. Let us assume for the moment that the government has decided that it will mandate a lowering of interest rates on home mortgages. There are already speculative excesses in housing, which would become worse as a result of such an announcement. I suppose the government could ease monetary policy and in that way reduce interest rates, but it seems to me that that would be extremely short-term relief, for inflation would accelerate and the interest rates in the longer term would tend to reflect that inflation. In addition to that, of course, our exchange rate would drop, which would also contribute to inflation. There have also been suggestions that we should lower our interest rates and let the exchange rate drop. Governor Bouey said that he did not think that we could be sure that the exchange rate would stop at any determinable level. If we decided to reduce interest rates by a more accommodative monetary policy, the expectations that are already embedded in this economy would clearly become rampant.

There are also those who say, "Well, what we ought to do is balance the federal budget. The root of all inflation is our running a deficit." This is a favourite argument of the businessman. Governor Bouey said that the fact that we are running a deficit has no effect on our monetary policy; that we are not monetizing that deficit. The Economic Council of Canada showed us studies from its most recent report which indicate that balancing the deficit would have very little effect on our inflation rate. In fact, if one thinks about it, those who say that balancing the budget would cure inflation must logically look at the situation right across the country, and if one looks at the combined provincial budgets and federal budgets, I believe one will find them in surplus. As a matter of fact, you can go back in history and find situations of inflation with the budget in surplus. There are very good and valid reasons to balance a budget, but to suggest that by doing so you will cure inflation is, in my judgment, totally misleading.

● (2130)

There are those who say that what we ought to have is a tax-based incomes policy—the acronym is "TIP." This is the latest concept in incomes policies. We have tried controls in Canada. They have not stopped inflation. I think you would