banking system will trigger inflation and expectations of inflation.

We have learned from hard experience that what is regarded by the public as an excessive increase in the money supply can play a major part in triggering such inflationary expectations. These expectations, in turn, can very well have the perverse effect of causing interest rates to rise sharply as lenders demand a higher return on their money to offset the anticipated erosion in the value of their money.

A reversal of the recent marked trend toward lower interest rates would have the effect of discouraging business capital investment, housing construction and many other forms of economic activity. Higher interest rates would also tend to set a vicious circle in motion. Funds from abroad would flow into Canada to obtain the higher return, putting further upward pressure on the value of the Canadian dollar and further reducing the competitiveness of Canadian goods at home and abroad. If the government took steps to restrain the increase in the value of the Canadian dollar by buying foreign exchange, its cash requirements would be increased still further and so would the upward pressure on interest rates, which is the last thing we want at the present time.

At the outset of my remarks, Mr. Speaker, I readily acknowledged that the performance of the economy generally over the course of 1970 was not as buoyant as we would like to see. Nevertheless, there are substantial elements of strength apparent that auger well for the future.

In the budget, I pointed out that real output in the economy has begun to rise again in the third quarter following a pause in the second. It will be some time yet before the national accounts for the fourth quarter are published, but it is encouraging that in November the industrial production index, an important indicator of economic activity, increased by 1.3 per cent over the previous month. This increase, which is the largest month to month rise since last February, occurred despite the serious drag on industrial output resulting from the General Motors strike.

A further sign of gathering strength in the Canadian economy is evident in the value of non-residential building permits issued in October and November, which were above the levels of a year ago for the first time in 1970. After lagging earlier in the year, housing construction increased sharply during the latter part of 1970 because of the heavy injection of funds provided by the federal government as part of the series of measures adopted to promote faster economic growth. During the fourth quarter of last year, the number of housing starts was running at a seasonally adjusted annual rate of 260,500, which is the highest rate recorded since the first quarter of 1969.

Only late last week, the DBS reported that as a result of a substantial increase in exports, Canada achieved a merchandise trade surplus with other nations of $2.95 billion. This is not only more than double the previous peacetime peak of $1.3 billion, in 1968, but also exceeds the 1945 wartime record of $1.7 billion by more than $1.2 billion.

During 1970, business capital investment lagged significantly behind the increase originally anticipated by private companies contributing to the moderation of economic growth. Despite this shortfall, however, it is encouraging that a recent survey of some 200 large corporations in Canada undertaken by the Department of Industry, Trade and Commerce indicated that these companies expected their capital investment during 1971 would exceed actual expenditures last year by approximately 11 per cent.

A major source of economic strength is the extraordinary progress made during the course of the past year in bringing inflationary prices under control. In December, the consumer price index declined by .4 per cent from the previous month. The year to year increase in the index for December of 1.5 per cent was the smallest rise since 1964. Between February and December, the consumer price index also rose by only 1.5 per cent on a seasonally adjusted basis, which is a substantially smaller increase than that of any other major industrial nation.

• (3:50 p.m.)

During 1970 there was a substantial decline in interest rates, reflecting the easing of monetary policy started last year when the opposition were still fighting inflation, and the growing confidence that inflation was being brought under control. By mid January of this year, the yield on 91 days treasury bills was 4.66 per cent, compared to yields of more than 7.5 per cent recorded in late 1969 and early 1970. Earlier this month there was a further reduction from 7.5 per cent to 7 per cent in the prime lending rates of the chartered banks which, during January, have also led a movement toward lower NHA mortgage rates. There has been a substantial decline in other long term rates as well. By the middle of this month, the rate on long term government of Canada bonds was down to around 6.7 per cent, compared to rates of more than 8.3 per cent at the turn of 1969/70. All of these developments on the monetary front will contribute in a very real way to economic expansion.

Mr. Alexander: When?

Mr. Benson: I will get to that later.

In the budget which I presented to the House last month—

Mr. Baldwin: We have been waiting for a year.

Mr. Benson: But you have not been listening for a year. That is the problem.

In the budget which I presented to the House last month, I expressed confidence that the economy would grow at a healthy rate during 1971 and that unemployment on a seasonally adjusted basis would progressively be reduced throughout the year.

Mr. Bigg: Can you bet on that?