rate sector, combined, of course, with the increase in consumer expenses, will give a badly needed impetus to corporate investments. A higher rate of investments means therefore that the existing productive capacity will have increased when the demand has picked up and also that an added capacity will be needed. Conversely, an increased capacity entails a greater price stability. Moreover, before the March 31 budget, the federal government introduced a set of expansionary tax measures, namely tax cuts on personal income tax through indexation, lower unemployment insurance benefits and the development of job creation programs.

These measures combined with the initiatives contained in the budget will help maintain the expansionary thrust of the federal tax policy put forward originally in the November 1974 budget which, incidentally, enabled us to face the world recession better than any other industrialized country. Besides, the OECD mentioned it in its report, alleging that Canada had a better economic performance on average than other industrialized countries. Therefore, in the 1977-78 fiscal year, the liquidity requirements foreseen by the federal government will be in the order of $8.5 billion. This large liquidity requirement Mr. Speaker, will start to decrease considerably as the economy recovers.

I must point out that these liquidities, given the present circumstances, are not inflationary. They are rather an essential support for the economic activity. In my opinion, an early attempt to reduce them would jeopardize the recovery of production and the decline of unemployment which are both under way at the present time.

In short, the present taxation policy is both anti-inflationary and expansionary. It is anti-inflationary because it is based on restricting federal administration expenses and expansionary because it involves a sizeable deficit. In my humble opinion, it is the policy that must now be applied when so called stagflation constitutes our number one problem. Concerning the monetary policy, which is the other major element of the demand management policy and which the bill proposed by the hon. member for Bellechasse (Mr. Lambert) would rather radically modify, I quote a statement made recently by the Bank of Canada governor in his 1975 annual report:

> The basic principle underlying Canadian monetary policy continues to be that the money supply should grow along a path capable of accommodating a satisfactory rate of real economic growth accompanied by some slowing in the rate of increase of prices.

And in this same statement, the bank spelled out what it meant by announcing three ranges for the growth rate of the money supply and demand deposits which are progressively decreasing, as we all know. The first rate was not less than 10 per cent but well below 15 per cent as measured from the average level of the three months centered on May 1975. Up to summer 1976 and after two increases in the discount rate, the bank had succeeded in lowering growth back to the lower limit.

By the end of August, the Bank of Canada, taking into account the intentions it had expressed, announced a drop of 8 to 12 per cent of the intended range. In order not to exceed

[Mr. Pelletier.]

that range, the Bank had to lower the discount rate on four occasions, thus bringing it to its present level of 7½ per cent, which was supposed to encourage firms and individuals to increase their expenses and spur the economy. In October, the Bank of Canada announced another reduction in the range of rate gap which varied between 7 and 8 per cent from June 1977. Mr. Speaker, that is our present national monetary policy.

I stated that a careful demand management policy rather than the continuation of control measures is essential to the reduction of the inflation rate. Temporary control measures were necessary to allow a fast reduction of the inflation rate. Had these control measures not been imposed in the fall of 1975, and had salary increases remained at the level of 15 to 20 and even 30 per cent that they reached before the imposition of control measures, costs, in terms of loss in production and jobs, would have been enormous. In such a situation, strong pressures would have been exerted upon the government to force its decision regarding the demand management policy which, by being adjusted to excessive salaries and price increases, would have caused further inflation and would have made the final and necessary adjustment even more costly.

The most important contribution that control measures brought in the fight against inflation is that they have made it possible to avoid that dilemma. Thanks to the control measures and to a careful demand management policy, that risk no longer exists. We can now terminate these control measures and rely instead on tax monetary policy in order to solve the problem.

I recognize that, given high food prices and the devaluation of the Canadian dollar, we have recently faced some difficulties in lowering the inflation rate. For instance, official figures for October unhappily showed that consumer prices have gone up by 8.8 per cent during the year ending in October. For the same period, food prices have increased by 12.7 per cent. On the other hand, non-food products chopped further and stabilized at 7.3 per cent. In this regard, Mr. Speaker, I would like to say that last week, I was reading a report of the Economic European Community which said that the total rate for the whole of the common market countries was around 2 per cent above the Canadian average, for all common market countries, that is.

The decrease in non-food products is due to lower wage demands. Whatever index we use, all wages registered a remarkable downturn since the inception of the anti-inflation program in October 1975. At last Canadian wages have stopped outgrowing wages in the United States—our main economic partners. The slowing rate of wage hikes combine with the recent devaluation of the Canadian dollar—which as you may recall is one of the factors responsible for the recent short-term deterioration of our economic performance in terms of prices—should contribute in a big way to reestablish our competitive position on international markets. It will be the only way for us to benefit from the increasing world demand and the only way to prevent our producers from giving away their products at lower prices on our domestic markets.