

*The Budget—Mr. McRae*

with the whole notion of budgets and the reason for them. He states that budgets should be designed to act in an anti-cyclical fashion. They should be designed in such a way as to cool an economy that is rising too rapidly, or to speed up an economy that is slowing down.

Senator Lamontagne points out that in 1954, 1957, 1960, 1963, 1967, 1970 and 1974, very regular intervals, we have had recessions in Canada, the United States, and most of the industrial world. There has been a regularity about these recessions.

He goes on to show that one of the problems has been that people who make up budgets, not only in Canada but in all countries of the industrial world, do not deal with things which lie behind the actual economic state of affairs. In other words, we wait until we are in the middle of a recession before we begin to stimulate the economy, and we wait until we are at the peak before we try to slow it down. He strongly suggests that anti-cyclical measures should be taken much sooner.

With regard to the recession of late 1974 and 1975, perhaps at the time of the budget last May we should have had the mildly expansionary activity that we got in November. Certainly even in November expansion was required. One of the serious problems we face today is the fact that the United States, on which we depend so much because of our close trade links, was still talking restraint in late 1974. The anti-cyclical problem was not being faced. It should have been faced at least a year ago.

According to Senator Lamontagne and economists I have read and spoken to, it appears we have passed the bottom of the recession and are moving into a somewhat expansionary era. It is hoped that by the end of this year the growth rate will increase somewhat in the industrial world.

In designing a budget at this time, June 1975, we have to consider this as an in between period. The essence of the budget should show some mild restraint. That is how I would describe this budget. It is not an expansionary budget. It shows mild restraint. We are in a period of inflation, but the inflation rate in the past five months has been around 8 per cent as opposed to 15 or 16 per cent for the same period last year. Therefore, there has been a decline in inflation. There is, however, a great deal of fear that, with an expanding economy, the inflation rate will again go up. That is a fear which must be carefully considered.

Unemployment is too high. There is no question about that. It is however, considerably lower than the rate in the United States—about 2 percentage points lower—and we must remember that we have the fastest growing labour force in the industrial world. It will in fact take us at least four or five years until the population figures start moving in the other direction. With the very large number of young people presently coming on to the labour market it is a pattern we shall not be able to get away from for the rest of this decade.

● (1540)

Statements have been made that we do not have much control over our economy because the recession is international in its nature. We are criticized as a government, for saying so on the ground that this is not an adequate

[Mr. McRae.]

excuse and that we should be exercising more control over our own affairs. Nevertheless, demand in Canada is beginning to rise. There is a growth factor present. The growth rate is possibly running at about 1 per cent at this point, and it will likely increase to 3 or 4 per cent by the end of the year. So there is a measure of strength in domestic demand and this is something we should not forget.

I differ from the hon. member for Vancouver-South as to the real value of the marketplace when it comes to ensuring competition. I tend to be more sympathetic to the Galbraithian point of view that the marketplace, at least as it applies to a large sector of our economy, does not really exist in practice, or, that if it does, it exists at a level which is almost impossible for national governments to control. Multinational corporations control the degree to which the market is established by such means as advertising, and the degree to which prices are administered. This is an aspect we must seriously consider. I do not believe national governments have come to grips with the problem of dealing with this kind of price setting mechanism because it is really external to any one of them, and will require a further degree of international control.

The Minister of Finance told us that in his approach to the budget he had two or three options open to him. As he went through the options available it became apparent that he really had only one option open to him, or perhaps two. The option which had to be thrown out immediately was that of a very tight deflationary policy which would have solved the problem by creating massive unemployment, something which is totally unacceptable to any party in the House or to any group in the country. The other was to put in place a very tight control mechanism. This option is relatively attractive at the present time. I do not think that last May, or even last fall, it had much merit because we were still in a heavy demand situation—inflation was the result of excessive demand, and controls at that point would only have exacerbated shortages.

The nature of the inflationary situation has changed to the present, where the pressure can now be described as cost push, and we are in a situation where a much better case might be made for controls. However, I reject a policy of controls even at this point because, as the Minister of Finance has indicated, Canadians really are not willing to accept what would be involved.

One just has to visit a store like Canadian Tire, for instance, where there are thousands of different items on display, if not hundreds of thousands, to realize the range of the items which would have to be controlled. Multiply this by myriads of stores in this and other fields—take a look through the Yellow Pages of the telephone book and note the wide variation in the manufactured goods available—and one begins to understand the complexity attached to doing a decent job of exercising control. The bureaucracy required could be staggering. For this reason, while the option of controls makes a good deal more sense today than it did a year ago, it is one which at the present time is just too difficult to put into practice, especially when one considers that inflation rates have gone down to 8 or 9 per cent.

The only option the minister had left was to try to more finely tune the budget—bring the economy under a little more control, given the fact that we are possibly just