ADDRESS BY THE HON. JOHN TURNER, MINISTER OF FINANCE,

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Even before the supply restrictions and the price increases of last fall, the world was in the grip of a substantial inflation. Oil so thoroughly permeates our modern economies that a trebling or more of its price can only add greatly to the inflation that is already running. Canada is immune from direct balance of payments problems, but not the contagion of inflation. This added inflation cannot be dealt with by restrictive monetary or fiscal policy. The only possibilities are in the economic (and political) forces that are at work in the crude oil market itself.

The increase in the oil price is so great as to constitute a threat to the levels of demand that are necessary to sustain growth of output and employment. It may well be necessary to use measures to sustain demand in the world economy in the face of the oil price increase. At our meeting in Rome, we made the same point regarding expansionary policies.

It has been said often that the oil importing countries are going to experience massive increases in their deficits. The danger in this fact for the world economy lies in the possibility that industrial countries will individually seek to reduce or eliminate their current account deficits when collectively they cannot in the short run. Unless this fact is genuinely appreciated and acted upon, we face the prospect of growing trade restrictions and a fracturing of the trading system.

We need to cement the world trading system by getting on with the planned trade negotiations on an even wider basis to embrace security of access to supply as well as to markets. We need, too, rules of conduct relating to bilateral arrangements between oil producers and importers.

The need to finance deficits is the counterpart of the fact of deficits. This is a horrendous problem for some less developed countries. For the industrial countries it is a matter of assisting the recycling of oil payments into investments in the deficit countries. There are many technical aspects of this complicated matter requiring examination.

The uncertainty of the situation and the violence of the shocks to payments positions means that exchange markets will be volatile and will require some careful management. We need an international code of conduct governing that management, for instance, surveillance by the I.M.F. as agreed to by the Group of Twenty. As Mr. Schultz has said, we must look at constructive measures dealing with the uncertainties, e.g. consideration of borrowing mechanisms, long-term investments.

The general point to make here is that the industrial countries must remain in contact with each other, and work out the rules of conduct needed and submit to the international surveillance of developments and policies that is essential to maintaining an integrated trading community.