Professor NEUFELD: This is a huge area, this question of regional development and what impedes it and what encourages it. All I would say is that I think it is quite inappropriate to use interest rates and credit policy to encourage regional development. I think it is better to assume general levels of the cost of money, to accept them, and to divorce regional development from changes in credit conditions. In other words, regional development policy should be unrelated to the question of general credit restraint. This is not to say that we should not have more regional development. I cannot see that the use of interest rates and general monetary policy for regional development is either desirable or practicable.

Mr. BELL (*Saint John-Albert*): That is where this witness pretty well agrees with Mr. Bryce. Thank you.

Mr. OLSON: Many of the questions I wished to put have been discussed in the examination by other members of the committee. However, there are three questions I would like to discuss briefly with you.

First, let me ask you about the statement you made in paragraph 8 of your Summary and Conclusions, where you say that the excess spending forces appear at present to be fairly well under control. In the expanded explanation, you said that the inflationary pressure during the last six or eight months—I think you said—has pretty well levelled off or diminished. Yet, when we look at the consumer price indexes that were provided to us yesterday by the Deputy Minister of Finance, we find that the increase in food advanced 7.5 per cent, from August 1965 to August 1966. This would indicate that this is a large issue and it is probably the one that is occupying the greatest attention of the committee at this stage. In fact, we put it number one on the list of the specific items we are going to get into. Would you have any comment on this?

I am going to offer one other suggestion, that is, that the compounded annual growth rate from 1949 to 1965 of this specific item is 1.9; or in fact the lowest one in the whole of any of the components making up the total. Do you have this chart in front of you?

Professor NEUFELD: Yes, I do, thank you.

Mr. OLSON: What explanation can you give for this, if inflationary pressure has withdrawn or diminished during the past few months and food has taken a greater increase than at any other period, going all the way back to 1949? Is it because there has been a lag in this particular item that should, in justice, have been made up long ago and is just now catching up?

Professor NEUFELD: I think the first point that should be made is that there is fairly strong evidence now to suggest that the increases in consumer prices generally lag the forces that have brought them about. In other words, if you have certain forces—excess spending and so on—that are behind the price increase, in the economy, it will take a while before the price increase actually occurs and works itself into the price level. So that, even though demand forces that have produced inflation might have levelled off early on in the year, the price increases roll on for a while and then they level off.

This is one point that should be kept in mind, that consumer prices do not instantaneously reflect the forces that have brought them about.

As to your second point, I certainly think it justifies close examination by this committee—why food prices, which have been remarkably stable over the 1949 to 1965 period, suddenly have spurted up—I cannot give you a definitive answer. In the few days I had available for the preparation of my comments, I recognized it had happened, but I did not have the time to form an opinion as to why it had happened. I think the explanation that you alluded to might well be the correct one, in that there was really a long period when food prices were tending to keep the cost of living down, and that they have done now no more