Professor NEUFELD: I think it is quite significant. I cannot give you figures because no such reliable individual estimates exist, but on the basis of the estimates that have been made, and on the basis of the order of events as I have outlined in this paper with respect to devaluation, wholesale prices, and so on, I think that import prices have a substantial effect on domestic prices. Now, whether it means that for every one per cent that the import prices rise, domestic prices rise by one-half per cent, or a quarter per cent or three-quarter per cent, I do not know.

Mr. OTTO: On the next page you speak about tight money policy and the mobility of capital. In your opinion, just exactly how mobile and how fluid is capital, say, between the United States and Canada?

Professor NEUFELD: It is probably the most mobile and most fluid thing we have got. That is why the rate of return on capital probably is so easily equalized. I think it is exceedingly mobile because we have no exchange controls, and because Canadians know Americans, and Americans know Canadians, and they all know each other's investment opportunities, and because of the relationship between parent and subsidiary companies. For all of these reasons I think that capital is exceedingly mobile across the border.

Mr. OTTO: This is why I question it. In the past number of years, as you know, short-term money in Canada has been drawing anything up to pretty close to eight per cent, whereas short-term funds in the United States have kept pretty well below six per cent. Why is it that over the past five years this has not balanced out? If capital was indeed as fluid as it is presumed to be, why that discrepancy? Take mortgages, for instance. Going back five years previous to this they were still drawing in the United States 4.7 per cent, 4.9 per cent or 5 per cent, and here they were drawing 6.2 per cent and 6.4 per cent.

Professor NEUFELD: Of course, the rate of return as indicated by the rate on mortgages is decided partially by what investors regard as the risk involved. I am not proceeding to give you any facile answer, because you have asked a complex question to which there is no easy answer, but I would say this, that as long as you find that Canadian mortgages yield more or attract more than mortgages in the United States, and you still have a free flow of money between the two countries, then this difference would be explained by such things as the fact that Americans feel they must have a certain reward for the extra risk involved. They are taking an exchange rate risk when they come into Canada, and, perhaps, they inherently regard Canadian investments as being riskier. They perhaps regard a 6 per cent return on a mortgage in the United States as about the same as a 7 per cent return on a mortgage in Canada, because of the exchange rate risk and the risk of doing business here, and so on.

But, on your point of relating short-term interest rates, there have been cases—and I suspect it is the case right now, although I have not looked at it over the last couple of weeks—there are some interest rates in Canada that are lower than short-term interest rates in the United States, so it is not always the case of all rates in Canada being higher than in the United States.

Mr. OTTO: But you will admit that the mobility of capital is subject to some psychological factors on the part of the people who control the capital?

Professor NEUFELD: Oh, yes.

Mr. OTTO: That leads me on to my next question, which is in respect to your page 9, where it is stated:

> There does not at present seem to be any need to press restraint further, but at the same time it would in my view be premature at this stage to assume that an economic downturn is imminent and that monetary and fiscal policy should be made easy.