

economy not being registered, or registered in a different way in the indices we are using.

The change from the automatic 2 per cent escalation factor will be significant and I support this move although I have reservations, particularly as this provision relates to the entire business community and our tax structure. In a free economy, various segments are advancing while others are going back, and adjustments must be made to offset this fact. When the cost of production in one segment is higher than the return on the product, the price must go up in order to obtain required production. When indexing is related to the entire economy, perhaps this situation is rectified.

Let me give one example in respect of agriculture. We have seen a rapid increase in food prices, about which there has been a great deal of comment, much more so than there has been about increases in the cost of automobiles, clothing and other manufactured goods. An examination of the cost of agricultural production indicates that unless prices go up, production will go down. In addition, we must remember that the determination by the international market of the price of grain products has contributed to the increase in retail prices ultimately passed on to the consumer and reflected in the cost of living index. What happened was that the industry needed a larger portion of our national income in order to maintain productivity. Without such an increase, production would have fallen off, and I might say that it has to some extent.

When there is an increase in the cost of food prices, there is naturally an increase in the cost of living index. If the remainder of the economy is able to respond to this by an immediate rise in their payments, then the whole economy becomes rigid and there is little point in raising agricultural production. So when we translate automatic rises in the cost of living to pensions, wages, and so on, in my opinion there could be considerable unfavourable reaction. It is true we are not dealing here with the normal sums of money in relation to the total economy, although these sums could become significant. Although they are in retirement, we are dealing with people who, because they have left the work force, perhaps because of age or infirmity, have a reduced ability to earn a living. Nevertheless, if all segments of the economy, or almost all, became indexed there could be a very rigid economy in society. At the present time almost all increases in salary are based on cost of living increases rather than productivity.

● (1640)

I should like to elaborate a little on some of the problems in respect of our economy as a result of the way the funds of the Canada Pension Plan are being spent. The provincial use of Canada Pension Plan contributions has become part of a mechanism that not only affects the pension plan but also affects provincial government spending and the entire investment pattern.

Provincial governments have a pattern of borrowing from the Canada Pension Plan. This tends to encourage increased spending by the same governments because of easy access to the pension fund money. The legislation in respect of the Canada Pension Plan provides for the investment of funds less the estimated amounts needed to pay for benefits and costs. These funds are made available

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to each province, based on its contribution. In this way the provinces are able to borrow money from these funds subject to the supervision of the Department of Finance.

I think it has been recognized for some time that in the past 20 years the provinces have had much greater demand on their treasuries, relatively, than there has been on the federal treasury. Considerable discussion of this problem was generated during the debate on the white paper in respect of taxation, and subsequent taxation law. I believe the use of Canada Pension Plan funds has tended to mask the importance of this. It has tended to make it easy for the provincial governments to have access to funds, and perhaps contributes to some unwise spending programs. This may also have prevented dialogue in respect of making decisions on actual taxation powers, in terms of the proportion allotted to the federal and provincial governments as well as, perhaps, to municipal governments. In general, this easy access to funds by the provincial governments could lead to unwise spending programs.

This program does not involve the normal contracts that would be involved in borrowing from normal lenders. It is not necessary for a provincial government to become involved in the process of borrowing money on the financial market. I suggest this condition could tempt provinces to adopt an "easy come, easy go" attitude. This huge reservoir of Canada Pension Plan funds provides a cash flow which occurs independently of the normal business cycle. The revenue of the Canada Pension Plan grew from \$95 million in 1965 to \$1,102 million in 1972-73. Since 1965-66 the excess of revenue has left the plan with an amount of \$4,779 million. In 1972-73, contributions to the plan totalled \$897 million, with pay-outs of \$206 million, so that almost \$700 million was available to the provinces for borrowing on a prorated basis.

There are many who criticize the free enterprise system, but the intragovernmental borrowing and short-circuiting of the free market by borrowing from the Canada Pension Plan fund—illustrates what has happened. If a province needs funds, it should borrow directly from the market. In turn, if the division of taxes is such that provinces do not have sufficient access to taxing powers, then that should be negotiated. Borrowing from the Canada Pension Plan fund brings into conflict two different functions, the needs of the provincial treasurers and the rights of the pension fund contributors. If the provincial governments borrow at an advantageous rate, obviously the pension fund is lending at a disadvantageous rate. If the provinces did not borrow these funds there would be an incentive to maximize the yield on the funds and the money would flow to the most productive and rewarding sectors of the economy.

Perhaps the managers of the fund should be urged to invest as effectively as possible. There is a suggestion that the Canada Pension Plan legislation would have to be amended to permit each province to control its own funds. If yields on the pension fund could be improved, the contributions could be decreased or the benefits could be raised. Under the present arrangement the provinces are able to borrow at less than market value and thus the pensioners rights are disregarded and given second place. The present situation allows governments to disregard the best interests of the pension plan contributors. After all,