Johnston estimated public debt charges for 1981-82 to be $12.3 billion, increasing to $16.2 billion in 1983-84. He indicated that efforts will be made to reduce expenditures through re-negotiation of the fiscal arrangements with the provincial governments. However, Dr. Slater suggested that the deficit would not be affected significantly on the expenditure side: "I think much of the action lies on the tax front rather than on the expenditure-cutting front. The biggest block of government expenditure goes on health, education, welfare and those types of things."

Despite this, Dr. Stewart claimed, perhaps optimistically: "There is no automatic tendency for the deficit to continue to widen. On the contrary, the automatic tendency is for the deficit to remain roughly constant in absolute dollar terms and to decline as a percentage of G.N.P. as G.N.P. rises." In discussing possible means of increasing tax revenues, Dr. Stewart suggested that partial rather than complete de-indexation of the personal tax system might be considered: "The issue, I believe, is full indexing versus some modification system and not indexing versus no indexing. This continues to be a lively issue. I believe the arguments against a full indexing system have a good deal of validity."

The Monetary Attack

Dr. Stewart agreed with Mr. Bouey and Dr. Slater that monetary policy alone could, or should not be relied upon to combat inflation, particularly as the impact is uneven across society. He suggested that "too much reliance seems to be being placed on monetary policy" at present. He also pointed to an apparent flaw in controlling inflation by controlling the money supply in reference to "the inventiveness of credit institutions to increase the velocity of money." In light of this inventiveness, it may be necessary for the Bank of Canada's monetary target program to extend beyond M1 to include other levels of monetary aggregates. However despite the inequities and apparent lack of success to date, all witnesses did support continued monetary restraint of a gradual nature. Mr. Bouey affirmed his position this way:

> —you always have to look at this in terms of, "What are the alternatives?" If the results are not as good as one would like to see, what should we do: Give up, or print a lot more money? Are those alternatives going to help the situation any? I suggest we have to press on until we lick this thing. . . . When I say, "press on", I mean continue to control the money supply and interest rates will have to be whatever is necessary.

Controls

Dr. Stewart very succinctly summarized his views on the psychological aspect of any attack on inflation: "We are living in a climate in which people are not willing to restrain themselves unless they are assured that everyone else is restrained." All the witnesses supported the idea that a strong anti-inflationary stance on the part of the government was necessary at least to hold expectations in line. Dr. Stewart, in line with the comment above argued that the weapons used to combat inflation directly must not only be equitable, but must also appear to be equitable. He suggested that in principle, the Minister of Finance has rejected controls as a "frightful political interference". However, the Minister, in a speech given recently in Quebec City, indicated that he is continuing to search for a TIP (tax based incomes policy) that would be equitable, fair, effective and administratively possible. This Committee urged in 1971 that no substantial or long-term reliance should be placed on an incomes control policy. Governor Bouey apparently agrees: "Controls can sometimes be useful in circumstances where events have go out of hand but they are not a substitute for sound financial policies."

Energy Agreement

Our witnesses all stressed the value to the economy, and to the value of the Canadian dollar, of obtaining an energy accord in Canada. (Dr. Slater pointed out that an examination by the Economic Council of Canada of the National Energy Program showed that the impact on the economy would result in the short term in a period of slower growth. He also noted with respect to the conservation of oil that " . . . even if we take a fairly optimistic view of the effect that higher energy prices will have on the use of energy, it will take a very large accomplishment indeed by the supplementary programs of encouraging conversions and other things like that, to produce the (reduced oil usage) results of the National Energy Program". Dr. Slater believes that: "There have been some lost opportunities as a result of the continued indecision over energy policy. Nevertheless the main effect has been to delay improvement in economic performance to later in the decade and early in the 1990s". Dr. Stewart reviewed the impact of increased energy costs over a short term, on other Western economies; the overall impression is that their inflation rate did not increase noticeably faster than Canada's did under an energy cost subsidy policy. Whether or not the increase in energy costs, resulting from an agreement between Canada and Alberta will result in a short-term or long-term shock to the economy, the witnesses felt that the level of stability and confidence in the economy will rise with the establishment of an oil price and revenue accord.

Supply Side

In the United States, so-called supply side nostrums are being touted as short term cures for the entire economy. However, the testimony of our witnesses emphasized the medium term need for improved efforts to make markets work more efficiently, and effectively. Mr. Bouey stated his position most concisely and directly: "I think the broad public interest lies in taking a skeptical view of the value of restraints on the functioning of markets and on the rate of supply of particular goods and services." Government regulations are clearly part of the system of constraints on efficient markets, and in this regard, Mr. Johnston indicated that the government is anticipating the final report of the Economic Council of Canada on regulatory reform. This report will be released in June.