Increasing concern over the high rate of growth in the money supply in both Canada and the United States is being shown by financial market commentators.

The situation is more clear-cut south of the border, where the picture is not clouded by such temporary phenomena as a postal strike and a banking year end.

The article goes on to say that it has been concluded:

—that money supply growth will have to be curtailed if the Federal Reserve Board's targets are to be met.

Speaking of Canada, Hugh Anderson has this to say:

Similar problems may well be building up in Canada where the chart lines showing the rate of growth in M-1 have shot well above the Bank of Canada's target range of 6 to 10 per cent, measured on a weekly basis. The central bank has warned that recent numbers may be misleading because of the unknown effects of the brief postal stoppage last month . . .

The fact remains, however, that curbing money supply growth seems likely to become a preoccupation for the central bank . . .

It seems to me that the somewhat more vigorous rate of Canadian economic growth expected in 1979 and the amount of federal debt to be monetized both suggest further upward pressure on M-1 after the January-February seasonal decline.

The problem of inflation remains with us, and much of what we will be seeing and watching for depends on the success or otherwise of the recent issue of Canada Savings Bonds—on how many of these bonds will be taken up by the Bank of Canada.

The real wages of the average Canadian worker are falling because prices are rising faster than his pay. The normal and natural thing for him to do is to try to get enough pay to keep his standard of living from falling any further. But the government has been trying to persuade him to grit his teeth. As the deputy governor of the Bank of Canada stated:

Canadians will be wise enough to recognize that the burst in consumer prices is temporary and that it should be met with moderation and patience.

But is this inflation temporary? I doubt it. What are some of the indications? We find that wholesale prices are on the rise, which is a fairly sure indicator of inflation down the road. It is a sign of higher retail prices to come. Until recently, the wholesale price index has been trailing behind the consumer price index, but it has now surged ahead and is quoted at 14 per cent for September.

High interest rates are both an indication and a cause of high inflation to come. One element in interest rates is an allowance for future inflation. At the same time, increased interest rates feed into prices by raising costs of production, of construction and of holding inventories.

Those of us who have studied the inflationary process since as far back as 1970 have noted, as did the current finance committee, that the real interest rate had to be 3 per cent and that anything above that figure was what the lender expected inflation to be; and since he made that allowance, the raised interest rates and the higher inflation were taken into account by him.

We are likely to get secondhand inflationary pressure as a result of the slump in the U.S. dollar, and of course our dollar has slumped much more. The U.S. dollar has dropped 20 per cent in relation to the German mark and more in relation to the Japanese yen. Therefore, we are bound to have inflation as a result.

The U.S. president has attempted to contain inflation through voluntary guidelines. Where can he hope to go? We have had them in Canada. We had the Food Prices Review Board and voluntary guidelines. This indicates that they are merely a smokescreen to obscure what is really happening. Inflation is like a hot potato, tossed from one section of the economy to another, each sector hoping that the other one will take it up. Labour will decline to hang on to the hot potato of the inflationary spiral without demanding further wage increases, which bring on the demand for wage and price controls. The borrowings indicate that our accounts are pretty well out of control. The seeking of additional borrowings indicates the bad state of our economy.

● (2032)

I should like to refer to the recent takeover of Phillips Petroleum by Petro-Canada. That takeover does not seem to make much sense. This company was paying taxes, and I understand that it was a well-run company. It is being taken over by Petro-Canada, which takeover will be financed by the borrowing of American dollars. Perhaps one can say that this is the repatriation of a company which is owned approximately 70 per cent by United States interests.

Is exchanging equity for a mortgage any better? In a mortgage the interest and principal must be repaid, regardless of whether Petro-Canada makes any money or what its profitability is, whereas when there is equity investment and the company does not make money, the people who have invested in the company do not receive dividends either. To go forward with the borrowing of $1 billion to buy a well-established company in Canada makes no sense at this time. It increases liabilities by another $1 billion. The government has said that it is not responsible. As a federal company, Petro-Canada in the final analysis must be backed up by the Canadian government. Its borrowings and losses are picked up by the government.

Last spring the Export Development Act was before the House. Everyone who studied that act realized that in effect the Government of Canada was the covenant for the borrowing of the Export Development Corporation. On that occasion the government was honest enough to admit, if the worst came to the worst, that EDC could call upon the federal treasury to cover its borrowings. The Export Development Corporation raised money in the Eurodollar market, which action increased the pressure on the United States dollar.

In the Eurodollar market, the holders of foreign dollars have a defence against the devaluation of the American dollar and hence the Canadian dollar. They create more dollars by borrowing. Loans create deposits faster than engraving greenbacks. All the Eurodollar need to do is increase strong currency loans to Eurodollar accounts, thereby building up dollar deposits without an obligation to liquidate assets put up as collateral. In effect, EDC is adding to our debt responsibility abroad by borrowing in the Eurodollar market. In turn, pres-