● (1700)

[*English*]

Hon. Mitchell Sharp (Eglinton): Mr. Speaker, like most members of parliament, like the Minister of Finance (Mr. Macdonald) and the Prime Minister (Mr. Trudeau), I have serious misgivings about price and income controls as a means of dealing with inflation in peacetime. As a former member of the government, I was one of those who resisted such controls until I became convinced that there was no alternative. When the decision in principle was taken, I was one of those who shared the view that the program of price and income restraints should be selective, limited as far as possible to the principal decision-makers in the private sector, flexible enough to deal not only with the typical but with the atypical cases, and of sufficiently long duration to have some possibility of changing the inflationary psychology then prevalent. It was the urgent need to try to change the inflationary psychology that, in my opinion, was the main justification for the introduction of price and income restraints in 1975.

Members of the House will recall that wage demands at that time were based on the expectation and the fear of further price increases. Similarly, price increases were being based on the expectation and the fear of further cost increases. The chase of incomes after prices and prices after incomes threatened disaster to all concerned. The managing director of the International Monetary Fund, Mr. Witteveen, put the point, with his customary elegance, in an address just about a month ago on May 17:

> Perhaps the most important lesson of economic policy that has been learned from the events of the past decade is the key role played by expectations in the determination of price movements. When high rates of inflation persist, expectations of continuing price increases are gradually built in to pricing policies, both in the labour market and in the goods market. These expectations can sustain the momentum of inflation even when excess demand pressures have been eliminated. Not only that, but uncertainties concerning the future course of costs and prices undermine the confidence of private business and result in an unwillingness to undertake the investment on which future output and growth depend. This is perhaps one reason for the rather tentative response of fixed investment during the recent cyclical recovery.

That, as I have said, is the view expressed just a month ago by the managing director of the International Monetary Fund. Just why this race got under way no one is quite sure. It was not only a Canadian phenomenon; it occurred throughout the industrialized world. In some places the pace was quicker than in Canada; in others it was slower. But it was universal.

I shall not at this time enter into a debate as to the causes, although there are, without doubt, important lessons to be learned about the inflationary process which will be of value in preventing its recurrence in the future. If I may be permitted a brief comment, it is that it is much easier and much more popular to take measures to stimulate demand than it is to take measures to dampen the economy when inflation threatens—and I speak now from the heart of a former minister of finance. Somehow we shall have to learn that there is a point beyond which measures to stimulate over-all demand are counterproductive in terms of employment.

The trade-off between inflation and unemployment, which may have had some validity in the past, has little meaning today when high inflation and high unemployment exist simultaneously. Until a few years ago the central objective of economic policy in the industrialized world was to prevent the recurrence of a depression such as devastated the western world in the 1930s. On the whole, that objective was reasonably well attained. Looking back over the period one can say it was one of the most successful periods of economic expansion in the whole history of the world. The period from the end of World War II until the early seventies was one of unsurpassed expansion and prosperity.

The problem facing us now is quite different from what it was in those years. The problem is to maintain reasonably steady economic progress, steady progress which is threatened by inflationary tendencies of great tenacity and universality. So I return to the question before us, which is whether or not to disband the present controls at the end of the month, as proposed in the resolution introduced by the financial spokesman for the official opposition and founded, of course, upon the gathering together of a sufficient number of members to justify this debate.

I proceed from the premise that price and income controls are not a desirable solution for inflation in a free society in peacetime, although I know there are some who take a contrary view. I do not think there are many in this House who take the contrary view, but at any rate I know that outside this parliament there are many who do. To me, and I think to most of us, controls are at best a temporary expedient to gain time, and that is the basis upon which they were introduced and approved by this parliament. The legislation that gave sanction to the system that is now in operation had a time limit on it, and it was defended on that basis not as a permanent system of price and wage controls. Nor is anyone, I trust, going to argue that the program of price and income restraint now in effect is ideal and fully equitable. In the very nature of things, price and income restraints are arbitrary and, at best, offer some sort of rough justice.

Mr. Alexander: The Minister of Labour said they wouldn't work, in the last election.

Mr. Sharp: They certainly are not of the kind and nature that one would have entered upon with any great zeal, because in the nature of things they are arbitrary. They are justified only because, although arbitrary, they are to be preferred to the excesses which would have been experienced without them and only if they have beneficial effects on the pattern of human behaviour for the future. No one can know what would have happened without the imposition of controls. All we do know is that price and cost increases prior to the introduction of controls were accelerating at an alarming rate, and that since the application of controls there has been a fairly steady diminution in the rate of increase of both prices and costs.

Hon. members will recall that the period of controls is divided into three parts. During the first year which ended in October, 1976, the objective was an increase in the consumer