There has to be an incentive to work, to perform. We must provide incentives for business to expand. Businessmen must be able to plan ahead in the certainty that the rules will not be changed too abruptly or unnecessarily. Finally, and most important, monopoly power must be effectively controlled. I suggest this because there is no way in which full employment can be financed otherwise without inflation. I pause at this point to define full employment. In the context in which I am using it, the expression means about 97 per cent employment; in other words, about 3 per cent unemployment, as experienced in the period of the early post-war years. The government's present approach is unworkable. Big, powerful unions must limit their demands and big, powerful companies must pass the consequent savings on to the consuming public.

• (1640)

I was interested to hear the speech of the hon. member for Oshawa-Whitby (Mr. Broadbent). Although he applauded some of my earlier statements, I am afraid that the economics he described for us this afternoon came from the London School of Economics at a time when it was less than up to date in its outlook. It is the kind of economics that is really not relevant in the world in which we live. I think it is possible to finance full employment without inflation today, but first of all we have to look at the real world in which we live, not at the world of a few decades ago.

In doing research for my book "Agenda: A Plan for Action", I found in only three of the 15 countries surveyed an unemployment figure that was higher than 3 per cent on average. Those three countries were Canada, the United States and Italy. The average rate for the 15 was about 2 per cent, and of course many of them had a much better performance than that. Canada had the worst rate of the 15. So I think it is fair to say that we do know how to finance full employment.

When I say we know how to finance full employment, I am speaking of orthodox economics. The average orthodox economist knows how to work demand management in such a way that the full utilization of resources can be maintained. This has been proven in many parts of the world. It has been proven in Japan, Switzerland, Germany the Nordic countries, in Australia, in New Zealand and many other countries. What we do not know how to do is to finance full employment without at the same time breeding inflation. However, contrary to the widely held view that this is impossible, I believe it can be done.

First of all, we have to recognize the nature of our economy. We have to recognize that it is a split economy. It is not a total market economy: it is an economy in which part is market and part is rigid. We have to recognize that some wages are set by individual arrangement and some wages are set by union contract. We have to recognize that some businesses operate on the basis of price competition and that some of the giant industries are big enough to control market prices and conditions.

In our economy the big, powerful unions use their monopolistic power to push up costs. Then, the big powerful industries push prices up to compensate. Some people insist that it works the other way round, but it does not matter really for the sake of our argument here: it is a vicious spiral that has to be stopped. As costs and pricses rise in the monopolistic, or, if you prefer, the oligopolistic sectors, the Bank of Canada is faced with a dilemma, and that dilemma is this. It can either finance full employment with high inflation, or it can finance less than full employment with slightly less inflation. The compromise is the famous and classic trade-off of the economist.

This is not the time nor the place to comment on the usefulness of Senate studies, but I was very disappointed in the recent report issued by the Senate committee on economics in which it perpetuated what I believe to be a myth. In referring so strongly to the Phillips curve and the trade-off theory, I think it has helped to give credence to the idea that there is no better way of doing things, that in fact for all time we are plagued with this anomaly of either having too much inflation or too much unemployment, or some combination of the two. Of course, socially as well as economically neither alternative is satisfactory. If we were to have 6 per cent unemployment for an extended period of time, it would be socially disastrous. It would create a situation in this country where a whole generation would lose hope, would give up, and almost anything might happen.

If, on the other hand, we were to permit inflation at the annual rate of, say, 6 per cent—which on the basis of the present wage settlements in Canada is likely to be the case—then at the end of the century, after about 30 years, a person who today is earning $10,000 would need $57,000 just to stay even. Today's $20 bag of groceries would cost nearly $115. A home now selling for $25,600 would jump to more than $147,000. So I think the consequences of such a rate are really tremendously important, and therefore we have to project any thinking into the future now in order to adopt policies that will prevent this from happening. As I said earlier, I do not think it needs to happen, but we must act now.

If where union power exists increases in wages, including fringe benefits, are limited to the average increase in productivity for the whole society, and if the profits of the big oligopolies are limited to the long term experience in that industry to ensure that the benefits of lower wage costs are passed on to the consumer, then it is possible to pursue the twin goals of full employment and zero inflation at the same time. Unless monopoly power is limited by the public interest, there is no way this can be done. But if it is done, then what happens, of course, is that prices in the big industries will decline slowly but consistently. The price of cars, farm machinery, refrigerators, washing machines, vacuum sweepers, glass and cement will all decline over the long period at a steady rate, whereas prices in the service industries, such as cost of hair cuts, medical and dental services, police and fire protection will continue to rise. But when you take an average of all these things, the prices that are declining through use of technology and capital and the prices that are rising in the service industries will average out at zero. This means that to all intents and purposes you will have zero change in the composite price index.

If we are to follow policies along these lines it means we will open up a whole new horizon for this country. It will present a situation where we can have the full utilization of resources with maximum freedom of choice. We can then have a decentralized system where power is decentralized from this level of government to lower levels of