on the domestic market, (deprive Canadian producers of the benefit of production on a large scale with the low costs that result) and will cause unemployment; worst of all, the impact of inflation on the real incomes of Canadians is discriminatory and works most unfairly against individuals who live on fixed incomes, generally the weakest members of our society.

Today's inflation has tended to institutionalize itself as a persistent and would-be permanent guest in our system, through, among other factors, the wide-spread development of an inflationary psychology.

In reviewing the evidence of the Economic Council of Canada we note that the Chairman of the Council told the Committee on October 6, 1969:

> "You will recall that in 1966 we were approaching the crest of a construction boom. Not only did the Council conclude that Canada was not achieving a satisfactory standard of price performance in 1966, but the Council also warned about
>
> > "the emergence of a number of general underlying factors which have created an environment less favourable to the maintenance of a good record of price and cost stability than was the case in the earlier years of the current economic expansion since 1960".
>
> The Council's *Fourth Annual Review* in 1967 was prepared at a time of some moderation of growth in the economy. But this Review emphasized that
>
> > "an early resumption of stronger general demand expansion from the present situation would clearly lead to an earlier reappearance of significant price and cost pressures that took place over the great expansion in 1961-66".
>
> On the basis of its appraisal of the basic economic situation at that time, the Council went on to elaborate;
>
> > "We believe that underlying conditions are favourable to continuing strong demand growth and that following the recent shorter-term adjustments which have been evident in various parts of the economy, great care will be required to avoid the emergence of excessive general demand pressures."

There are several other observations that we would like to make as a preface to the recommendations which follow.

The Importance of Conditions in the U.S. Economy

First, the level of interest rates in Canada is determined very largely by forces over which Canadians have no control. The Committee agrees with the view expressed by Mr. Louis Rasminsky, Governor of the Bank of Canada, that Canadian interest rates have to remain competitive with U.S. interest rates so long as we maintain a free capital market in North America, otherwise we would face a foreign exchange crisis. We were also impressed with the explanations given by the economist Dr. Edward Neufeld that interest rates reflect in a mathematical way the degree of inflation. Dr. Neufeld for instance, showed that the "real rate" of interest has approximated 3% and has varied very little from year to year over the past 15 years.

Dr. John Kenneth Galbraith made the point at an informal hearing that Canadians could not have price stability at a time when the United States had inflation. Others made the point that we should be able to manage our